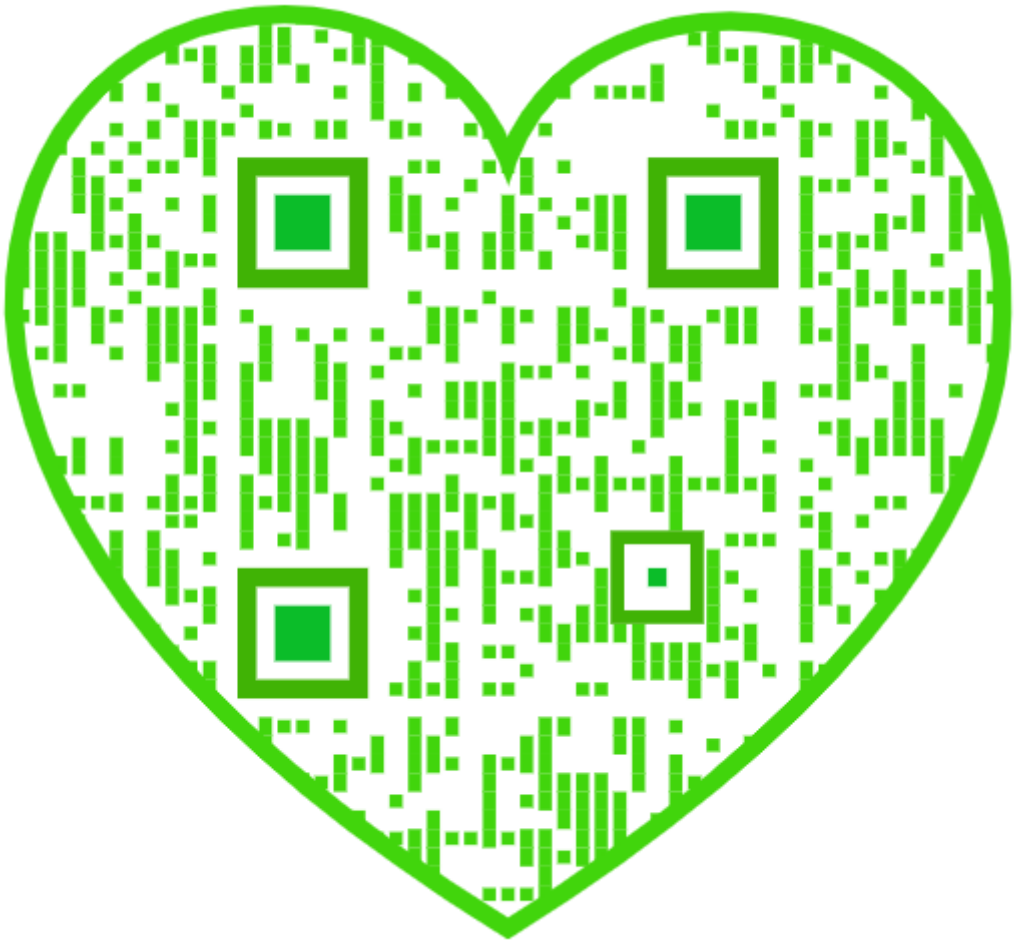
POLITICAL ECONOMY

IN

Questions and Answers

DR. JOSEPH OCH



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A PRIMER OF

Political Economy

IN CATECHISM FORM:

QUESTIONS and ANSWERS

BEING A SYNOPSIS OF LECTURES

ON POLITICAL ECONOMY

AS DELIVERED IN THE PONTIFICAL COLLEGE JOSEPHINUM

FIRST VOLUME OF A SERIES ON

THE SOCIAL SCIENCES

By Rev. Dr. Joseph Orh,

PROFESSOR OF THE SOCIAL SCIENCES

IN THE JOSEPHINUM.

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Foreword.

The present volume affords a general survey of the science of Political Economy as it is taught in the Pontifical College Josephinum. The scope of the actual treatment in the lecture room was, of course, a far wider one than is apparent from the subject-matter herein contained. The arrangement of the matter in questions and answers was suggested to the author by practical considerations, to wit: the field of Political Economy is so wide and its details so various and ramified as to baffle even the very industrious and capable student when confronted with the ordinary textbook. The presentation of the subject-matter in the form of a Catechism, as here realized offers advantages to the student which even a very concise and good textbook cannot rival. Besides, it delimits, to the advantage of both student and professor, in a convenient fashion, the subject-matter which the student is expected to have digested in the course of the lectures and which the professor may rely upon the student knows.

The present volume is the first of a series to be written and published by the author, the entire series comprising, in distinct treatises and, possibly, volumes, the entire cycle of Social Sciences as taught in the Seminary of the Josephinum, to wit: Political Economy; Money and Banking; Social Politics (Social Reform and Social Reform Movements); Socialism (a thorough historical and critical treatise of all forms of Socialism, especially the "Scientific" Socialism of Karl Marx, Communism and Anarchism); Po-

litical Science; American Political Science; The Constitution of the United States. Each volume contemplated will appear in the form of this initial one: the form of Catechism. The first volume following the present one will be on Socialism.

The expert in Political Economy will, the author anticipates, miss a treatise on Money which, however, could not conveniently be incorporated in the present volume. Nor did it appear advisable to present a treatise on Cooperative Undertakings of workmen or the middle classes, be they cooperative undertakings of buying and selling for consumption (Consumers' Cooperative Stores), be they agricultural cooperative, or agricultural, industrial and small tradesmen's cooperative credit associations. These cooperative undertakings will be more aptly treated in the volume on Social Politics. For similar reasons a fuller treatise of Land, Land Speculation, and Land-Reform Movements were reserved either for "Social Politics" or for "Socialism" in its various forms. The ethical aspects of the present organization of Distribution: Rent (from Land), Interest (from Capital), Profit (from the Undertaking), and Wage (from Labor) can, also, be treated more aptly and more fully in Social Politics, as it is the purpose of the author to do.

In presenting this first volume of the series to the public the author modestly hopes he is rendering the cause of education in Political-Economic thought and judgment a service. The first volume, being written, as it was, amid the stress and distraction of many other duties, will not escape the criticism either of the expert or the layman. The author will be grateful for criticism and for hints helpful toward publishing a better revised edition in the future. The proceeds of this volume are dedicated to the Re-Building Fund of the Josephinum.

The Author.

INTRODUCTION

THE SOCIAL SCIENCES — ECONOMICS.

Political Economy is a member of the large group of social sciences whose common material object is man as a social being. Man in his psychic aspects is the object of scientific study in a twofold regard: either as an individual, or as a social being. All sciences treating of the psychic nature of man in its social manifestations, constitute the social sciences. The principal sciences are: moral, law, jurisprudence, political science, philosophical social science, religion, anthropology, ethnology, statistics, international law.

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Most natural processes have the quality of constancy, while the social processes are inconstant, dynamic, i.e., they continually change their character,intensity, and sequence, so as to be beyond calculation. Natural processes are computable, forward or backward,with unerring certainty, whereas social, psychic processes thwart every attempt at reducing them to any law. Hence the essential difference between the knowledge of facts of natural science and the knowledge of facts of social science. Processes in natural science reveal the agency of general laws in a manner as to make a single individual fact appear the legitimate and absolutely true representative of every fact within a given order or series. Once the relation of hydrogen and oxygen for the purpose of generating water is established, the result will be valid for all other possible experiments in which the right relation is observed. The knowledge of the construction and vital processes of a single organism in a given

species, is equivalent to the knowledge of all other possible organisms or processes of the same kind within that species.

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Not so, however, in the realm of historical and social fact. Natural science has for its purpose to convert qualities into quantities, and to learn from the nature of a single individual organism or process the entire range of organisms or processes of the same order. Historical and social facts and processes cannot, like those of natural science, be measured, for they are not the n e c e s s a r y result of natural agencies, but the result of the free psychic nature of man. Human psychic actions cannot be reduced to unities of natural energy. They are individual, psychic; and the individual free human agent can never be the subject of scientific calculation as to his decisions. While, indeed, human nature is essentially the same in all men, the individual forces, tendencies and volitions preponderate over that which is universal and common in all men in a degree as to baffle computation.

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The basis and foundation of all history and of all social phenomena is man as an (social) individual. The individual can never be actually calculated, measured as to his acts. Therefore there can be no so-called historical or social laws. Every historical fact, every social event, however great its similarity with other happenings of the same order, reveals individualistic traits constituting it a unique fact in all the realms of social life.

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The substance and basis of all social action in the state, in economy, in law, in religion is man. But none of these phases and phenomena of the social life is in itself substance. but function. All social life is function. not substance, but function of a psychic nature, although it results in physical action. All human social action is outwardly

transmitted by means of psychic force. Hence all social function coming within the scope of social sciences, respectively, is classed among the psychic mass-phenomena. Thus , state life, economic life, religious life, art, science, jurisprudene are psychic mass-phenomena.

These few observations reveal at once the essence of all the social sciences. They are sciences of human relations and of the exterior effect of these relations. What has been said of the preponderance of the individualistic forces and of the psychic incomputability of man also disproves the claims of the so-called Sociologists that there are laws of social evolution from which the development of society in the past can be deduced and which, they pretend, form a secure basis of calculation for the future. Likewise, the economic materialistic conception of history of classic Socialism is untenable in view of the psychic-individualistic character of social fact.

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What has been said of the psychic nature of all mass-phenomena applies with equal cogency to the world of economics. Political Economy is psychic function transmitted outwardly and projected upon external nature.

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Science is the knowledge or apprehension of truth from its cause and established by certain proof or demonstration. The material object of Political Economy as a science is the economic life of people; the formal object is the particular point of view from which the economic life of a people is, and must be considered. Now Political Economy is a science founded on the truths of the essentially immutable social-moral nature of man; of certain divinely established elements of social life (social intercourcse, government, authority, obedience, rights and duties, all moral elements indispensable to any social commonwealth), of certain absolutely necessary conditions of public and private material welfare.

The formal object of Political Economy, therefore, deduced from the nature of man and of society (which is not atomistic) is: the science treating of the material welfare of a people, inasmuch as this welfare can and should be attained within the political organization, by means of a right and equitable organization of the economic affairs, of public and private economic activities and institutions.

This definition implies the t e l e o l o g i c a l character of the economic activity of individual and nation — the telos or end being the common welfare. It also emphasizes the solidarity of economic energies and actions which is deduced from the divinely established social nature of man. It, furthermore, recognizes the universal grant of right given to all men to share of the fruits of the earth and of their labor: "Increase and multiply, and fill the earth, and subdue it. And everything that moveth and liveth shall be meat for you" (Genesis) The economic conquest of the earth is the fulfilment of this grant and duty.

According to Adolph Wagner, all scientific knowledge must begin from the study of the human soul. Economic problems being inseparably connected with man, his instincts, desires, and ultimate destiny, are eminently psychological problems. Economics as a science, according to Wagner, is in one way psychology applied.

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Therefore, in all economic matters m a n must always be considered superior to nature, superior to technics and absolutely superior to the economic principle, which may never be applied a g a i n s t man, (cheap child labor, low standard of living, unwholesome conditions, and lack of safety appliances in the factory, etc.) but only for him. Man is always the subject,the end and center of Economy, endowed by God with the right to sovereignty over the irrational world. This is aptly called by Pesch the a n t h r o p o c e n t r i c - t e l e o l o g i c a l conception of Economics.

Political Economy.

CHAPTER I.

FUNDAMENTAL NOTIONS.

1. **Mention ten social sciences at random.**

   Languages, history, law, jurisprudence, statistics, political science, social ethics, social mores, political economy, finance, social politics.

2. **Which sciences are embraced in the term Social Science as generally used in schools and in our school?**

   Political economy, science of population, statistics, finance, social politics, treatise on Socialism, Communism, Anarchism, political science in general and in particular, including a study of the American State and of our Constitution.

3. **May the term Sociology be applied to these sciences?**

   By no means, for Sociology is as yet merely an attempt at a philosophy of association, or a theory of society in general and it is objectionable from a Catholic viewpoint no less than from a scientific one.

4. **Give one of the possible definitions of Political Economy as one of the functions of social life?**

   Political Economy is the totality of activities and institutions directed to the purpose of providing for the material wants of a people. (Explain the terms "political" and "national" as applied to Economy.)

5. **Give derivation of the word Economy?**

   From oikos and nomos, meaning the order, law or government of the house. (Thus in German: Volkswirtschaft, and - Hauswirt, Gastwirt, Landwirt, Miethswirt.)

6. Why is economic activity called purposive?

Because true economy is activity, i.e., not only activity for the purpose of providing, but of providing with prudence, providence and a calculation of cost and gain.

7. Is the homo oeconomicus a universal type, or is he the product of history, environment and the pressure of necessity?

The homo oeconomicus is the product of history and progressive civilization. He is not universally prevalent even today.

8. State the stages of economic development.

Home economy, village, territorial to state economy. Or, according to the criterion of exchange: domestic (autarchic) economy, barter, money, credit economy.

9. In what sense is Political Economy anarchic?

In sofar as not all economic activity is subject to law or regulation, and especially insofar as production for the market is regulated, if at all, only by speculation and the prudent policy of trusts and Kartells.

10. What are the characteristics of a truly human and progressive Economy?

That it be not mere wealth getting, but such an equipment of man with economic goods as will also promote his cultural and moral interests and provide for a state of disability and old age.

11. What is the economic principle?

It is the principle of the least cost combined with highest gain, the principle of the least effort with greatest result. The economic principle is merely the application of practical reason to the economic world.

CHAPTER II.

ELEMENTARY FACTS OF POLITICAL ECONOMY.

Article I.

12. What is a want?

A want is the sensation of a defect, a void, a necessity coupled with the desire to remove the same. In the objective sense "want" denotes the commodity or good desired.

13. Give some classifications of wants and explain them.

Native and acquired wants; material and immaterial; wants of existence and wants of luxury and culture; true and imaginary; immediate and remote.

14. What is the minimum of existence?

It is a dynamic category and varies with the stage and state of civilization, of rank and custom. It is never a starvation minimum.

15. What is the Standard of Life?

It is the minimum of existence which assures such a steady satisfaction of wants as custom, station in life, and the prevailing standard of culture has established or demands. It is not fixed but dynamic.

16. What is a commodity?

A commodity is a material thing or a service apt to satisfy a human want.

17. What are free, what are economic commodities (goods)?

Free commodities are such as are unlimited in their abundance and are afforded gratis by Nature, economic goods are such as are the object of human care, sacrifice and economic effort and are limited in quantity.

18. Are moral and intellectual goods classed with economic goods?

No. .Neither religion, nor justice, morality, education, conscientiousness, etc. But they are valuable assets in the world of Economics.

19. What is Utility?

Utility is the aptness of a good to satisfy a want. The degree of utility is determined by the importance of a want, or by the urgency of the want. The utility of goods is the measure of their value.

20. What is (economic) value?

It is the importance we attach to commodities with reference to their aptness to satisfy our wants.

21. Is value contingent on our estimate?

No. It exists independently of our estimate or esteem. Our subjective valuation is only the actual recognition of a commodity's intrinsic economic value.

22. What category is Value?

It is not an absolute category or quality of a thing belonging to the physical being of it (like size, weight, color, etc., of a body), but it is a teleological category, and is always related to a purpose, an ideal. Thus a piece of art has value inasmuch as it responds to a certain artistic ideal, a quantity of coal has value because it corresponds to a certain purpose: of creating heat. The value of an economic commodity is the degree of its importance as an economic good.

23. State the relation and character of Value in Use and Value in Exchange.

These two Values are not coordinated but subor-

dinated, for the value in exchange is determined by the value in use, i.e., by the degree of satisfaction a good will afford to the last one whom it reaches for consumption. For, exchange is not a purpose in itself, but its purpose is use and consumption.

24. What, then, is Value in Exchange?

It is the quantitative relation in which values in use of one kind are exchanged for values in use of another kind. As material goods with different properties and uses or utilities commodities differ, but their exchange values give them a common being, economic unity (one bushel of wheat for a quantity of cloth). "The quantity of fungible value in use which is found in all socially recognized commodities is the substance of value in exchange", Knies.

25. What other element besides their usefulness determines the exchange value of commodities?

The available and necessary supply.

26. How must all value be considered?

In its teleological character. (Opposed to this teleological theory of value is the genetic theory of Marx who makes labor the measure and criterion of economic value.)

27. What is Marginal Utility?

The utility of the last unit of the stock of a given commodity is the marginal utility of that commodity to that person.

28. What deductions do you derive from the doctrine of Marginal Utility?

1. The value of a commodity is determined by its Marginal Utility.

2. That not the abstract genus of wants (diamonds — bread), but the concrete want whose satisfaction depends on a commodity determines the value thereof.

3. That the only true character of value is teleological.

4. That production must be subordinated to consumption, that is, to demand.

29. What is Production, Consumption, Yield, Income?

Production is the creation of the utilities by dint of human labor. — Consumption is the use of commodities. — Yield is the result of production in a given period. — Income is that part of the net yield which is available for immediate consumption; income is that part of the yield which exceeds the cost of production.

30. What is the supreme purpose of economy according to the economic principle?

Production at lowest cost with highest yield.

31. What is an Economic Unity?

An economic unity is a person or an organization whose will and wants determine the conduct of an economy (the individual, the family, a stock company, the State, etc.).

32. What is an economic organization?

It is a union of men into a permanent economic relationship which is founded on economic principles.

33. Give some forms of Economic Organizations.

The family, the manor, the slave plantation, the community household of a city or state, the entire political economy of a people, a stock company.

34. What is the character of our present economic exchange organization?

It is an organization of the market, of buyers and sellers, of supply and demand, dominated not by the interest of highest production but of highest gain or profit. It is the organization of self-interest, of Individualism.

Article II.

STAGES AND DEVELOPMENT OF POLITICAL ECONOMY.

35. State the criteria or principles of the development of Political Economy.

1. The object or direction of production (hunting and fishing; the pastoral stage; agriculture and craft; agriculture craft and commerce. List).
2. The forms and conditions of exchange (domestic economy with barter; money economy, credit economy. Hildebrand).
3. The form of organization of the units of economy (exclusive home economy, autarchical; city economy; national economy. Buecher).
4. The progress of political organization (village, city, territorial, national ecconomy. Schmoller).

36. What may be said of these stages as to their accurate delimitation?

They are historically not sharply distinct, they overlap, and the prior stage only gradually yields to the succeeding one. They represent, each in turn, a form which predominated at a given time.

Article III.

POLITICAL ECONOMY A SCIENCE.

37. What is the material, what the formal object of the science of Political Economy?

The material object is the economic life of a people, the formal object (i.e., the point of view of) Political Economy is the ordaining of the economic life of a people to the material welfare of the people as the social goal, corresponding with the social nature (and supernatural end) of man.

38. Offer a definition of Political Economy.

Political Economy is the doctrine or science treating of the material welfare of the people, inasmuch

as this welfare can and should be attained within the political organization, by dint of a just and legitimate organization of economic affairs, and of public and private institutions and activities.

39. Which four departments has Political Economy?

Descriptive Economy, History of Economy, Politics of Economy (tariff, revenue. banking, railroad, commercial and similar legislation), and the Theory of Economy.

40. What is the relation of Political Economy to Ethics?

Political Economy may never be at variance with the principles of morality. Moral is a negative guide to Political Economy and a criterion of the worth and tenableness of economic doctrine. Political Economy will never teach that which is physically impossible and should never teach what is morally indefensible. The very existence and steady growth of the social reform movement is evidence of the recognition of ethical postulates for Political Economy.

41. Mention important papal pronouncements setting forth the ethical demands in Political Economy.

Ethical principles for economic and social relations between capital and labor in Quoad apostolici muneris 28 Dec., 1878; Rerum novarum 15 May. 1891;Graves de communi. 18 Jan., 1901. The doctrines embodied in these encylicals have been summarized in a Motu Proprio of Pius X, 18 Dec., 1903. addressed to the Christian Democracy of Italy. (II Pesch, pp. 441).

42. Describe the purpose and goal of the sound Political Economy of a people in accordance with Christian Principles.

That there be no too great differences of wealth, not "two nations" in a state (Disraeli), and
a) That even the lowest strata of laborers have an income insuring a respectable standard of living;
b) That there be intermediary classes by whom the touch and sympathy between the lower and upper classes are maintained; (Mittelstandspolitik, higher

classes of laborers, small merchants, craftsmen, business officials, farmers);
c) That it be possible for the lower to rise into a higher class, granted their fitness. There should be an economic selection and survival of the fittest, but not in the brutal Darwinistic sense of the classical Individualists.

CHAPTER III.

PRINCIPAL ECONOMIC SYSTEMS, SCHOOLS, AND THEORIES.

43. Mention the principal Economic Systems.

Mercantilism, Physiocratism, Labor-Industrial-or Exchange Value System of Adam Smith, the National Economy System of List, Carey's agrarian adaptation of List's theory.

44. Which succession of facts led up to the Mercantile System?

Discovery of America, sea route to India (1498) by which trade line was shifted from Italy and Constantinople and South Germany to Spain and the countries of the West; silver and money, banking; the Spanish Jews migrating to Germany and England; the splendid example of wealth through commerce of Florence, Pisa, Venice, Genoa, Amalfi; the ambitions of dynasties; the struggle of the city with the prince; the invention of gunpowder and the elimination of lesser nobility as a military feudal factor; the rise of a civilian army of state officers; the rise of royal treasuries, standing armies.

45. Sum up the philosophy and policies of the Mercantilist System.

Undue valuation of money as a national asset; balance of trade as a preeminent ambition; export; extension of home industry; protective tariffs, canals, trade-roads, removal of export duties on finished products, advancement of industries by grant of privileges, exemption from taxes, invitation of foreign and prohibition of emigration of home artisans; co-

lonies; population policy: cheap foodstuffs, aid to agriculture, premiums to large families, indulgent views on illegitimacy, Navigation Acts.

46. Mention some of the foremost Mercantilist Statesmen.

Colbert, Elizabeth Cromwell, Louis XIV, Peter the Great, the Great Elector, Frederic the Great, Leopold I, Joseph II.

47. What was the chief error of the Mercantilists?

That money is wealth, while it is only a medium of exchange; they forgot that the value of money is contingent on the possibilities of its function, exchange, which in its turn is profitable only when there is an abundance of commodities to be exchanged. The Mercantilists did not sufficiently recognize the true economic wealth of a country — commodities, and transferred the economic philosophy of the economic individual (money is wealth) to the nation.

48. What do you know of the great Navigation Act of 1651?

It is the most comprehensive and most stringent of a number of navigation acts, was passed by Parliament under Cromwell and was designed and destined to stimulate the building of a great English merchant marine; it forbade the importation of goods from Asia, Africa, and America in other than English ships English-manned, and of goods from any port of Europe in other than English vessels. It forbade to foreign vessels the right to bring to England goods not produced in their countries, and the act was directed chiefly against Holland which then possessed the carrying trade of the world. It was reenacted in 1661 and repealed in 1849.

49. Describe the system of Physiocratism.

Physiocratism is a philosophy as well as an economic system and is based on the Law of Nature or Natural Right doctrines which gained ascendancy toward the close of the 17th. century. The gist of this philosophy is: man is by nature free, has a right to possess property, a right to pursue his own selfish interests ; the doctrine of free competition, emancipation of economic life from state control, freedom of economic career, of contract — laisser faire —

as a reaction against the overdrawn control of Merchantilism.

Economically, the Physiocrats under the leadership of their chief representative, Francois Quesnay, (1694 - 1744) taught that not industry but rawstuff production is the source of wealth; hence, an abolition of the Mercantilistic trade provisions and a return to a strict agricultural policy. The Physiocrats overestimated the mere bulk of rawstuff production, too regardless of the demand for same and of its uses. Emancipation of economics from Mercantilistic absolutism and from uneconomical hindrances (obsolete tariffs and other restrictions) is the great merit of the Physiocrats. Besides Quesnay, Turgot (French minister of finance in 1774), Mirabeau (father of the celebrated revolutionist), Joseph II, and others represent this school.

50. Describe the system of Adam Smith.

His is the Labor-Exchange Value-or Industrial System. It, too, is a revolt against Mercantilism. It amplifies Physiocratism. It is Individualistic. The great and distinctive feature of Smith's system is the clarity with which it developed the idea of exchange value as a goal of national economics. Not the magnitude or quantity of production, but its exchange value is the source of national wealth. Not money, not balance of trade, not agriculture, but labor when applied to things that will have exchange value, is the object of an enlightened national economic policy. Hence division of labor within and between nations, each one of whom will most wisely produce that for which their country, abilities and aptitude best fit them. — Smith, however, overemphasized the principle of creating exchange value in that he did not take into account the demand which generates exchange value. He ignored the importance of the principle of marginal utility in the world of trade.

Adam Smith, born in Kirkaldy, Scotland, 1723, theological and philosophical student, professor of Logics at Glasgow University, traveller and later on writer on economical problems, his chief work "An

inquiry into the nature and causes of the wealth of nations" (1776), died in 1790—is the chief representative of the socalled "classical", and the liberal, individualistic school of economists. Smith has given the principle of free competition its clearest formulation and has championed its cause more than any economist before and most of economists after him. Smith believed in the existence of, or a universal tendency to, harmony in the world, also in the world of trade and business, and believed this harmony would unfold itself to perfection if each individual would be permitted full freedom of economic enterprise, free contract, etc., without interference by the state. He unwittingly and unintentionally became the theoretical author of all the misery, starvation, child and woman labor, that were consequent upon the recognition of free competition, and of the false principle of the equality of men in business; the inequality of the poor laborer—who had to "sell" his labor at any price in order not to starve—and the rich manufacturer became terribly apparent in the early era of industrial revolution in England, from 1776 - 1848. The doctrine of Smith on free competition was especially welcomed in industrial Manchester, England, whence also its name of Manchesterdom (this term is more in vogue in German terminology than in English Economics).

The postulate of Smith that business be not interfered with by the state, already familiar to Quesnay and all the Physiocrats, was given expression to this day in the motto: laisser passer, laisser aller — to let pass and to let alone, a phrase used to this day, and often heard in the pleadings of capitalists and their lawyers before the congressional committies sitting on labor bills in Washington.

51 State the system of Frederick List.

He might have entirely displaced the Smithian school of Economics if he had been as great a scholar as he was an agitator. The historical, realistic method of Economy has received through him a greater advancement than through any other single man in Europe. He represents a revolution of thought

and science from the Natural Rights school to the inductive and historical methods.

His doctrine is one of the truly national economics and insists on the development of the productive forces of a nation. These productive forces are the laws of the state, its institutions, science, art, religion, and moral, inteligence, legal security and adove all: the harmonious cooperation of agriculture, industry and commerce in the nation.. No nation ought to buy in the cheapest markets, like the single merchant; nor do protective tariffs represent monopolies enriching only a few beneficiaries. Protective tariffs do raise the price of articles protected but they involve sacrifices only for the great boon of economic independence in the future. His protective policy is one leading to economic self-dependence of the nation (Erziehungszoelle). The loss sustained by the nation in exchange value through its protective policy is the indispensable capital necessary to the strengthening and rearing of a home industry. (List, born in Reutlingen, 1789 writer, lecturer, political agitator, 1824 in America, outlines policy for American and German railways; his principal work "Das nationale System der politischen Oekonomie"; died by his own hand in 1864).

52. **State the system of Carey.**

Carey is the foremost of earlier American economists. He adopts List's ideas on national economy, and he bases all exchange value produced in a nation on the productive forces of nature. A peculiarity of Carey's system is that he classes land with capital. (Carey, born 1793, son of Irish immigrant, died 1879).

CHAPTER IV.

CONDITIONS OF DEVELOPMENT OF POLITICAL ECONOMY OR

THE CAUSES AND SOURCES OF NATIONAL WEALTH.

53. State the categories of conditions and sources of national wealth and economic development.

They are natural, social, political, and personal. They are, severally and in particular, natural: climate, zone, flora and fauna, fertility, coast and surface formation, inland waterways, water-power (Canada's, Switzerland's, Norway's water power; the Mississippi, Amazon, Rhine, Danube, the Great Lakes, Panama Canal; the insular or coast line positions of Great Britain, Japan, Phœnecia, Greece and the flourishing trading cities of mediaeval Italy: the feud over the Rhine, the Yalu, Fiume, Constantinople; the Mississippi a guaranty for the permanence of the American Union); coal, iron (the great industrial states of the Germanic race: England, Germany, United States — Pennsylvania, Newcastle);

b) social: population, size, distribution of sexes and ages; higher and lower classes; wealth distribution; marriages, births, mortality, national health conditions.

c) political: government, freedom or otherwise, laws on land, labor, and capital; freedom of enterprise; freedom of labor contract, unions, tariffs or

free trade; great stock companies and powerful organization of enterprises in trusts to meet foreign competition, banks, and system of finances, etc.
d) personal: training, standard of schools and education, progress of technics, organizations of employers and employees, public and private welfare institutions, free labor—slave labor, etc.

54. Give some illustrations of the determining influence of climate on a nation's economy.

a) Climate determines rain, and the proper distribution of rainfalls in the seasons, not their quantity, co-determines the fertility of the soil;
b) The Gulf-stream has made western and northern Europe inhabitable and fertile. while Siberia and Labrador are partly barren. The Carpathians, Alps, Himalayas are the protecting barriers for the fertile regions of the Balkans and Hungary, of Switzerland, Spain. Italy and India.

The Rocky Mountains, Ozarks, Appalachians and Alleghenies protect neither from the cold winds of the north nor from the hot winds from the south owing to their meridional course.

55. What distinction is there between "Nation" and "People" on the one hand and "Population" on the other?

The former denote juridical, political and cultural categories and express the unity of the inhabitants of a territory, while "Population" is a quantitative category and expresses the people's totality. But the racial and national characteristics of a people and its cultural qualities are no less a determinant in their economy than their quantity.

56. What do you know of the populations of ancient cities?

Their size was grossly exaggerated. Babylon and Niniveh were not real cities but vast territories with colossal fortifications. Even great mediaeval cities had hardly more than 5000 souls; London had 35 000 in 1377, and 180 000 in 1580. City development was perhaps greatest in Italy where the city states flourished and the nobility did not make war upon the cities but lived in, and advanced them.

57. Which causes produced the modern city?

a) The extension of the sources from which the urban population was supplied with foodstuffs; (this extension came with the abolition of the trade barriers and by a more liberal customs policy).
b) Progress in the Development of the means of transportation.
c) Freedom of migration.
d) The presence of the prince or sovereign who in the Middle Ages had mostly dwelt without the city.
e) The rise of the factory system.

58. On what is the increase of population contingent?

On natural (physiological), climatic, political, legal, religious and economic conditions.

59. State the physiological conditions.

The physiological prolificness of women extending from the 18th to the 45th year. Sterility of either sex is not at all infrequent. According to Prinzing — see Pesch, Nationalœkonomie, II, p. 545 — about 10 - 12 per cent of all marriages are sterile. Polygamy—legalized in Persia,in most Asiatic countries, in Africa, in Turkey, and permitted to the Hebrews in Patriarchal times—tends to increase, polyandry tends to decrease growth of population. Primitive peoples have largely practised voluntary birth control, or infanticide, or both.

60. On what does the number of marriages and births largely depend?

On the proportion of people of marriageable age, on economic conditions. The number of births (it ranges from 20 - 60 per thousand souls per annum, the mean number being 30 births) on the average age at which women in a given country marry, on economic conditions, on social status, on morality.

61. On what is mortality, another determinant of the growth of population, dependant?

The general state of civilization: protection of life and health, hygiene, medicine, housing, canalization, food laws, protection from occupational diseases. (Another important factor of movement of population is emigration).

CHAPTER V.

THE WOMAN QUESTION.

62. State the modern Woman Question.

The industrial revolution has largely alienated woman from her pristine domestic occupations and has left her helpless and resourceless in the face of new conditions under which the majority of men and women are constrained to seek a gainful occupation in the industrially organized world. So many widows and adult daughters must likewise do. But women's energy and talent, from a moral-social viewpoint, should not be lost to society and should be given a place and recognition in the fabric of the social-economic world.

63. From what did the Woman Question spring?

From the French Revolution in which were proclaimed the rights of man as an individual. Woman inferred from this that equal moral-social recognition was due to her. The civil matrimonial contract based merely upon human law had its baneful influence upon the new attitude of woman. (According to Johann Mueller and August Rœsler the Woman Question has the liberalism of the French Revolution for its father and social misery for its mother.)

64. Mention the principle for the occupation for Woman..

First, it should be stated that the traditional reserve in regard to woman labor has yielded to the necessities of modern times and, according to Kathrein, they should be admitted to such occupations as their endowment renders them fit for, so long as the interests of morality and the welfare of family do not forbid.

65. Mention in detail .possible fields of occupation for Woman.

In the telephone, telegraph, postal and railroad service, in bureaus, women have shown capacities often equal, if not superior, to those of men. In general woman is more adapted to work and positions demanding patience and agility than men whose nature fits them more for occupation requiring energy and self-control. Other fields for woman labor are: domestic service, charitable and school work, certain factory work, medicine. (Woman appears to be less adapted to fields of technics, art, sculpture, architecture, science, philosophy, and politics;[even Gladstone was of the conviction that woman, by the exercise of political duties, would impair her peculiar feminine charms and graces].)

CHAPTER VI.

MALTHUSIANISM.

Article 1.

66. Who was Malthus?

Robert Malthus, born 1766 at Dorking near London, theologian, Anglican minister, expert in the poor laws and poor welfare, arrived at the conclusion that the principal cause of poverty is overpopulation, his theory being set forth in his book "An Essay on the Principle of Population", 1798. Died 1834. His Essay is the most important and epochal work on population ever written.

67. State the Malthusian theory of population.

Malthus based his Essay on the assumption that all animal life is capable and has a tendency to increase indefinitely. Given a sufficient supply of food population doubles in 25 years. The means of subsistence, however, do not increase at an equal rate. Hence there arises a clash between the increase of population and the slower increase of the means of subsistence, the result being that the existing overpopulation is checked, reduced by hindrances. These hindrances are either of moral order — abstinence from marriage or voluntary abstinence in marriage, moral restraint, or vice and misery (poverty, illness, wars for the means of livelihood). Malthus designates the natural increase of population as a geometrical one progressing as 1, 2, 4, 8, 16, 32, etc., while the increase of foodstuffs progresses only mathematically: 1, 2. 3, 4, etc. Hence population is necessarily limited by the means of subsistence. Mal-

thus, consequently advises that the preventive checks be cultivated and countenanced by the governments; he also advises a severe reduction of poor relief and a rigid control of license to marry, a license which in his opinion should be altogether denied the poor who have no prospects of being able to support a family.

67. Is the doctrine of Malthus entirely new?

No. Long before him the discrepancy between the increase of population and increase of means of subsistence had been recognized and discussed by Plato, Aristotle, Montesquieu, Quesnay, Franklin, James Stuart, Arthur Young, and others. (Somewhat later Darwin extracted from the Malthusian doctrine the elements for his theory on the struggle for existence and the survival of the fittest).

68. What, then, is the Problem of Population?

It is the problem which inquires into the means and ways by which the means of subsistence can be brought into harmony with the increase of population.

69. And what is the Principle of Population?

The totality of causes and forces which actually determine and regulate the increase of population.

70. Who are among the followers of Malthus?

His followers, called the Pessimists, are Ricardo, Wm. Thos. Thornton, John Stuart Mill, James Mill, Mac Culloch, Say, Quetelet, Luden, Rau, v. Mohl, Ruemelin, Roscher, Schæffle, Cohn, Conrad, Wagner, Philippovich, Garnier, Schmoller, and others.

71. Who are Malthus' opponents?

Among his opponents, called Optimists, are the Socialists (Marx, Engels, Proudhon, Henry George, Fourier,) Louis Blanc, Marlo, Kautsky, however, share Malthus' ideas; the biologists Spencer, Nossig, Reich, Graham, Senior, Bastiat, Carey, List, L. Pohle, Karl Diehl.

72. Has Mathus anything in common with Neo-Malthusianism, or Birth Control?

By no means. He led personally a blameless life and cannot be held accountable for the perversion of his counsel of moral restraint.

73. Which three factors, then, enter into the principle of population according to Malthus?

The instinct and tendency of propagation, the limits of the means of subsistence, the checks.

Article 2.

CRITICISM OF THE MALTHUSIAN DOCTRINE.

74. Offer a criticism of Malthus' Principle.

a) Although Malthus in the second edition of his Essay introduces moral restraint as a check of overpopulation and as a force of reason, he does not duly recognize reason as a regulating force against the tendency to increase. The sexual instinct, in its isolation, is indeed blind. But it does not exist in isolation. Reason not only controls the instinct but even affects the instinct itself (the "tendency").

b) It is logically and methodically wrong to compare the abstract capacity and tendency of the human race to increase beyond the means of subsistence with the actual increase of the means of subsistence. The comparison should have been made between the abstract capacity of either, and then the greater increase would have been shown to be on the side of the means of subsistence.

c) The argument or statement of geometrical and arithmetical progression is entirely false. The real element of truth contained in his latter statement is the "law of diminishing returns". (Perhaps a too optimistic view is taken by the scholarly Pesch — as well with regard to the law of diminishing returns, as with regard to the problem of population in general. His opposition to Malthus is inspired by his great abhorrence of the proposed moral restraint which, he fears, is a peril to morality).

d) One of the chief errors af Malthus consists in this

that he based his theory of the discrepancy between increase of population and increase of the means of subsistence on merely natural and individual factors, i.e., the sexual instinct, to the disregard of the cultural elements of society: the prevailing economic system, order of property, custom, morality, and the changing economic capacity for population in the various countries. (Henry George violently opposed to the Malthusian theory, in "Progress and Poverty. etc.")

75. What is Carey's (American) attitude to the Malthusian theory?

Carey denies the geometrical increase of the race and asserts that of the means of subsistence. Besides he shares Spencer's biological theory that the progressive intellectual activity of men will result in a retrogression of their generative powers.

76. State Spencer's theory in this regard.

The less differentiated any organism, plant or animal, the greater its generative faculty. The progress of mental culture will result in a more perfect development of the human brain which, with its whole nervous system, absorbs the vitality and power of man to the impairment of his generative capacity. Eventually the human race may reach, according to Spencer's unproven and improbable theory, a stage of lasting equilibrium between births and deaths. According to Spencer individuation and propagation are contrasts and stand in an inverse ratio to each other.

77. State the attitude of Socialists, especially Marx, to the Malthusian Principle.

Socialists do not accept the Malthusian Principle. Malthus accepts the conflict between population and means of subsistence as inevitable and necessary, Socialists represent the conflict and the existence of an "industrial reserve army" as the result of the concentration of capital and the displacement of human labor by machinery. The elimination of anarchical production and of capitalistic distribution of wealth will solve the population problem.

78. What is Neo-Malthusianism?

It is a group of schools of economists, philosophers, writers, physicians with an immense following among the people who do not believe in the efficacy of moral restraint as counseled by Malthus, but who in theory and practice adopted the policy of voluntary birth restriction and deliberate human interference in the natural act of generation. The two-children system is a miserable concession of Neo- Malthusianism to ethics and population. Neo-Malthusianism is older than its name.

(The ancient world, Greece and Rome, owes its decline and final collapse largely to the Neo-Malthusian practise. Barbarians tilled the Roman soil, Chinese coolies in France; the decline of Venice is partly due to this vice.)

79. Mention some of the promoters of Neo-Malthusianism.

Francis Place (London), Robert Owen and his son Robert Dale, John Stuart Mill; the Malthusian League founded 1879 for the purpose of spreading birth control. From England the movement spread to Holland and thence to the rest of the world. The president of the League boasted in 1910 of the prevention of the birth of 21,000.000 children of the proletariate(See Allgem. Rundschau, Munich, Nov. 9, 1918).

CHAPTER VII.

PRODUCTION AND GAIN.

80. Give a Synopsis of this great subdivision of Economic Study.

In this subdivision we consider:

a) Production and the factors of production;
b) The organization of production and gain.

81. Mention the personal factor of production and the details connected therewith.

The personal factor of production is human labor, and we consider under it: the essence of labor, classes of labor, undertaker and laborer, labor systems, cost of labor, supply of labor, limitation of possible employment of labor.

82. Mention the impersonal (material) factors of production and details connected therewith.

A. Land: a) as the basis of production;
b) as the depository of reproducible forces and materials;
c) as the depository of non-reproducible forces and materials;
d) the law of diminishing returns.

B. Capital: Land and capital; the economic significance of productive capital; machinery; origin and consumption of capital; economic or social capital, private capital; the capitalistic undertaking.

Article 1.

PRODUCTION.

83. What is production?

Production is a technical process and is the deliberate creation of a new commodity.

84. What kind of production is the aim of our economic system?

Not a mere technical production, nor the greatest volume of production of utilities, but the production of commodities marketable at a profit.

85. What is Productivity?

Productivity is the degree of the technical result of production.

86. What is Profitableness?

Profitableness is the degree of the economic result of production.

87. Which are the elements of production?

Labor and Nature.

88. To what kind of production (technical or economic) do the elements, to which do the factors of production respond, and explain why?

Elements of production respond to technical production, factors of production to economic production.

(Production considered as an economic process involving cost has only a part of its natural cooperative elements for elements of production, to wit, land and capital plus labor. These elements, involving cost, are called the f a c t o r s of production. Their cost and value enter into the economic process and calculation of production.

89. In what other way are the f a c t o r s of production of importance?

In that they form the basis of the ratio of the distribution of the yield and income of the production between land, capital, and labor.

90. To what three kinds of P e r s o n a l agencies are all the economic activities reducible in our economic organization?

To individual forces (the single undertaking, Einzelunternehmen); organizations of undertakers and employees and free economic associations of every description and, thirdly, public authorities: municipal, state, and national.

91. Why does the conservation and cultivation of individual forces and individual (as against socialized and socialistic) initiative appear to be a matter of great economic importance?

Because the family, the cell of Society and State, must rely chiefly on individual energy and because all socialized and collective or organized effort is dependent for its success on the capacity and the sense of responsibility of individual forces (Carnegie, Rockefeller, Siemen-Schuckert, Jim Hill, Ballin and innumerable others).

92. Has absolute economic freedom ever prevailed in organized society?

No, not even in the heydey of Individualism.

93. What kind of category is freedom of economic action?

It is not an absolute category, but a dynamic one, and is subject to expansion or contraction according to the exigencies of the times, conditions and economic milieu. (Even personal liberty is not an absolute category, nor is slavery and serfdom absolutely wrong).

94. What is competition?

Competition is the mutual attitude or conduct of the representatives of demand and supply in the individualistic pursuit of their interests under the system of economic freedom.

95. State some advantages of competition.

Economic alertness, energy, thoroughness, efficiency, cheaper products, promotion of talent, advancement of technics, breaking of monopoly.

96. Mention some of the means by which competition, in the interest of society, is regulated and curbed.

a) By ethical considerations, justice, public opinion;
b) By associations of employers and employees (organized labor);
c) By state intervention: trade marks, labels, patent and authorship rights, labor and factory legislation.

(The principal causes demanding restriction of free competition are the inequality of men and human greed. Economic freedom is not an absolute individual right but a social status whose value consists in that it is a guaranty of the social purpose, which purpose is anti-individualistic and solidaric).

97. What is labor?

Labor as an economic category is the conscious and deliberate manifestation of the human power for the purpose of producing an economic utility.

98. State some classes of labor.

Productive and unproductive (according as the expenditure of labor actually results in the creation of economic value or not; according to the Mercantilists, Physiocrats, and the school of Smith only that labor is productive which increases the national wealth, i.e., which increases the supply of precious metals, of rawstuffs, and exchange values, respectively); free and un-free; skilled and unskilled; mental (planning, projecting and directive), and executive.

99. What is a labor system?

A labor system is the comprehension of legal and economic conditions entering into the labor contract or the relation of employment and determining the choice of labor, the terms on which labor is to be executed (place, time, relation to the employer, labor income, and cessation of labor relation).

100. Mention the various systems of labor.

Unfree labor (serf and slave), free labor (individualistic), free (collective) labor, public labor (whose terms are defined by law, the employer being the Nation, State or Municipality).

101. What do you say of the opposition, in the modern

capitalistic world, between undertaker and laborer?

This opposition is less of a technical than of a social and economic order. Technically, the laborer will continue subject to the undertaker, be he an individual or a corporation; this subjection is unavoidable and is not odious; but the social and economic subjection of the laborer to the undertaker is at the core of the modern social and labor question.

[Note. Labor among the Ancients was largely slave labor. Labor was a stigma of dishonor. Even Aristotle the most distinguished philosophical thinker of pre-Christian times deemed labor unworthy of a free man. Cicero the Roman statesman and philosopher, accounted labor as a disgrace. The artisan or tradesman was not admitted to public office in Rome. — The Mosaic law, on the contrary, ennobled and dignified labor. Much more so Christ, in His own person, and in His gospel. The parable of the vineyard, His manifold exhortations. St. Paul, a tent-maker, relies upon his own manual labor for his livelihood. "He who does not labor shall not eat". The courage of a man to preach the doctrine of labor to a civilization resting on slave labor! The apostles fishermen. The Church has been the champion of laborers and of the gospel of labor. Catholic civilization also a civilization of labor. The monks, the gilds blessed by the church and imbued with her principles and spirit. The markets under ecclesiastical protection.]

Article 3.

COST OF LABOR.

102. How does cost of land, capital and labor in general affect the cost of the product?

The lower the cost of land and capital the cheaper will be the cost of the product as far as that cost is involved in the cost of land and capital (cheap land =

cheap food; cheap leather = cheap shoes)'. However the same does not hold good for labor, and the cheapest labor does not insure the cheapest product. For the cost of labor is not expressed in the mere price of the product, but in a composite quantity composed of: time of labor, wage of labor, and product of labor.

103. On what physical and physiological facts and observations is the relative cheapness of high-priced labor based?

a) Reduction of time of labor results in an increase of physical and mental capacity insuring an increase of efficiency;
b) increase of wages results in a higher standard of living;
c) machines are often more profitably utilized under high wage system.

(However, there is a limit to the increasing profitableness of higher wages, especially when combined with shorter hours. — According to Koester "The Price of Inefficiency" there has been established an annual loss to the Economy of the United States of $702 000 000 from the mere failure to adopt "common sense practices" in daily operations.)

104. Which factors determine the supply of labor in a country?

a) Facts of population: distribution and numerical relations of sex, age, marriages;
b legal facts: freedom, restriction of child and woman labor, labor hours for adults;
c) social and economic organization: distribution of productive and unproductive labor (army and officialdom, f.i.); distribution of wealth which may or may not enable many to live lives of leisure;
d) educational standards.

105. What are the limitations of possible employment?

The available supply of labor; division or specialization of labor, organization and stage of national economy (a country in agricultural stage offers less opportunity for employment than in industrial stage), supply of capital, demand for products in home and foreign markets.

106. What do you know of the right to labor, i.e., the title of the laborer to employment?

The right to labor was demanded by Fourier and Considerant in 1839; was recognized by the French national assembly in 1848, and was denied by a Swiss popular vote in 1894. The right of the laborer to be employed by the State implies the right of the State to control the means of production and to control the free movement and migration of its citizens.

Article 4.

LAND.

107. Was land ownership originally communistic?

Prehistoric and historical research have shown that collective land ownership was not a universal institution, and that it has not even been a permanent institution among any known people. Even the "Mir" the communal tenure of land in Russia, is an institution of more recent times. In 1906 the "Mir" was dissolved and the distribution of land among the individual peasants begun, with the result of their impoverishment and their exploitation by land speculators.

108. Where should land, as the basis of production, be situated from a viewpoint of economy?

At or near the source of the rawstuffs consumed in the production (saw mills near the forests, steel mills near the ore mines or at the most advantageous point between the ore and coal mines).

109. How is this principle of the localization of plants near their rawstuffs observed in the United States?

The most conspicuous instances are the great meat (hogs and cattle) industries in the richest corn section of the North Central States, the smelting industries in the coal and iron regions of Pennsylvania and Ohio, the milling industy in the wheat belt of

the Northwest. The localization of the textile industries outside the cotton belt (in Massachusetts, which, in 1905, had about 60% of the cotton spindles), Pennsylvania, New York, and the N. England States, is an economic waste. Since 1870 the process of localizing the textile industries in the cotton belt has made considerable progress. For the world trade: the cotton fields are in southern U.S., Egypt, India (China, silk), while the textile centers are chiefly in England, New England States, Germany, France and Italy. Japan is now rising as a powerful competitor in the textile industry.

110. To what kind of land does the law of diminishing returns apply?

To land as the depository of replaceable forces and material (natural fertility, crops, forests).

111. State the law of diminishing returns.

The productivity of land is capable of increase by the addition of intensive labor or fertilizers or both, but the possible increase is not only limited, but will progress at a diminishing rate after the point of highest relative productivity has been reached, in such a measure that further additions of capital and labor will ultimately result in economic loss or waste.

112. Is the law of diminishing returns a natural law?

Yes (you can't raise a thousand bushels of wheat on one acre irrespectively of any amount of capital and labor expended in the productive process).

113. What is the social-economic import of the law of diminishing returns?

It has an important bearing on the principle of population and is a complement of the Malthusian theory. It is also of a decisive importance for the valuation of the Socialistic dogma of the unlimited progressiveness and productivity of the soil.

114. State the formula of progressive cost and progressive cheapness of return for capital invested in agriculture and in industry respectively.

The last bushel is the dearest, the last yard is the cheapest.

115. Is this principle absolute and without limit?

No; for also in industrial production, depending as it does, on rawstuffs the point of diminishing returns is ultimately reached.

116. Does the law of diminishing returns apply also to labor?

Yes, and it means that shortening of hours and raising the standard of living and efficiency by higher wages cannot progress indefinitely but that a marginal point will be reached beyond which further additions of investment in the form of wages to laborers employed or in additional laborers will bear no result beyond the maximum of product and of profit.

117. Mention some irreplaceable materials of which land is the depository.

All minerals, coal, oils, cements, stones, etc. Also nitrogen, potassium, and phosphoric acid are withdrawn from the soil by vegetation, but nitrate is now extracted and supplied from the atmosphere.

Article 5.

CAPITAL.

118. State the differences existing between land and capital as material factors of production.

a) Land is not produced nor reproducible;
b) supply of land is fixed and strictly limited;
c) land is immobile;
d) land is indestructible;
e) the uses of land are far less variable and less immobile than the uses of capital (above all they are subject to climate, disturbances from the clements: drought, frost, heat, flood, vermin, and the surface character of the soil (deserts, swamps, rocks; mountains, exclusive forest vegetation).

119. What kind of capital is a social economic asset?

Productive capital as such, i.e., capital that really is a factor of economic production. (Productive capital when it is viewed as a means of private profit is not social, but acquisitive capital Erwerbskapital, as f.i., a shoe factory, a dairy, even a farm.)

120. What is acquisitive capital?

It is the wealth or property of a person or a group of persons which is used as a means of gain or profit (thus even land in the hand of a farmer merchant or of a real estate dealer is acquisitive capital).

121. What chiefly is capital in the Socialists' view?

It is the wealth of those who use it as a means of exploitation of the laborer. The element of private ownership is peculiarily emphasized in the Socialistic conception of capital.

122. What is value capital or capital values?

Value capital or capital values are all other forms of capital, in a derivative, metaphorical sense, such as money, investment papers, stocks, bonds, mortgages, obligations. These papers are called capital because they represent or mostly represent actual productive capital to shares of whose productivity the papers grant a title, either fixed as in bonds and preferred stock, or indefinite as in common stock representing actually working productive capital (the factory and its machines are social, i.e., real capital, your bond or share in stocks you hold in the factory is a Value Capital — Wertkapital — and private capital).

123. Give a definition of Capital Values.

Capital Values are those property values which consist only in titles, not in actual goods, inasmuch as these titles are the sources of revenue. (It is characteristic of all form of Capital Values that they represent Value quantities existing alongside of their real basis—productive capital. Alongside of the stocks is the undertaking in which they declare

the holder's partial ownership and interest; alongside of the mortgage deed is the real estate as the guaranty for title expressed in the deed. These and all other forms of Capital Values have their own existence separate from their respective real bases and are exchanged, bought or sold without change in the undertaking they represent.)

124. Is the increase of Capital Values (stocks, bonds, mortgages, obligations, government papers) in the hands of the people a criterion of increasing wealth in the social, i.e.. productive capital?

Not necessarily. Because the issue of Capital Values may at times progress at a more rapid rate than the actual development of productive capital or the productive capital may have been so mismanaged as not to yield the products in which the Capital Values promise a share (over-capitalization, watered stock).

125. What part of the social capital of the American people do the Liberty Bonds represent?

None whatever with the exception of such portions as represent values invested in the building of merchant ships or other forms of economic utility. The interest on the bonds and the repayment of their face value at the time of their maturity are paid by the Government from funds derived from the incomes of all classes, but all these incomes lastly are derived from the productivity of the social capital or from titles to portions thereof.

126. What then do the billions of Value Capital in the form of Liberty and Victory Bonds represent?

They represent no actual working capital, but are a conversion of former subjective wealth of the people from money into titles. But they have stimulated the patriotism in a degree unprecedented in our national history and have given a wholesome impulse to the national habit of saving.

127. By what other apt name is Value Capital known?

By the name of fictitious capital..

128. Does the wide diffusion of the holdings of capital

values offer a new criterion for the designation of economic systems?

This may be affirmed. Thus Professor Liefmann of Freiburg distinguishes an era of capitalism of goods, an era of capitalism of money and one of capitalism of Values (Effektenkapitalismus). However, in this division the latter systems are not the denial of the continuance of the earlier systems, but the earlier systems are respectively extended into the era of the later and higher systems (barter, money, credit, Capital Values).

129. **Was capital used and was it necessary in every stage of economy and under every economic system?**

Yes.

130. **Why then do we precisely call our present system, and it alone, the capitalistic system?**

Because our present economic system has these four characteristics not found, or not so pregnantly developed in any of the previous economic systems, to wit:

a) The exclusive subordination of production, in its organization as well as in its execution, to the interest of profit in money, and not to the interest of profit in (the volume of) commodities;

b) The paramount importance of the possession of wealth for the organizing of production, a condition which enables even the less competent (intellectually) to compete with and crush the financially weaker undertaker;

c) The dependency of the laborer from wealth, the degradation of labor to a factor of production and to a factor of profit to the undertaker;

d The consequent distribution of the yield of production in a manner by which the laborer receives a fixed wage while the owners of capital and the undertaker divide the entire remainder of the yield among themselves.

Article 6.

FORMS OF PRODUCTIVE CAPITAL.

131. Mention the chief forms of productive capital.

Rawstuffs and auxiliaries; forces operating the plants (machines, tools, animals); plants, ware-houses, docks; meliorations: dykes, dams, irrigation systems. [Finished wares and money are forms of acquisitive capital]

132. What is standing (fixed) and what is circulating capital?

Fixed and circulating capital respectively denote a relation of the capital goods to the duration of the productive process. Circulating capital is that which enters totally into the product (or in the case of acquisitive capital that which is exchanged entirely for money = shoes for money); standing capital is that which only gradually is consumed in the productive process.

133. Give some examples of fixed and of circulating capital.

In the textile mill, for instance, the standing capital is the plant, the ware-houses, the machinery and other material consumed only after many productive periods. The circulating capital are the rawstuffs wholly consumed or essentially changed as coal, coke, or other forces, raw cotton, silk, etc., and the money invested in wages.

134. What is the supreme interest of the undertaker with regard to his productive capital?

To transform it as rapidly as possible into commodities, and the commodities into money, that is, into that form of acquisitive capital which offers the widest range of economic independence and of new investment in whatever undertaking he pleases.

135. Which has been the most important transmutation of forms of capital in history?

The transformation of circulating capital into fixed capital in the case of the displacement of human labor by machinery.

136. How do the various forms of capital rank in point of mobility?

The banker's, trader's, manufacturer's, and farmer's capital. (However, the complex development ov value capital has given also to the farmer's capital —land and crops — a mobility by speculators in land and crops which has given rise to the term of a "mobilization of the soil.")

137. What is a machine?

A machine is an instrument by which we may change the direction and velocity of a given motion, (Ampere).

Or: A machine is a technical instrument of labor which forces natural energies and a system of composed solid bodies (combined instruments) to execute movements in mechanical rhythm, leaving man in charge of the mere control and general guidance of the process, inclusive of a sum of small mechanic manipulations (Schmoller).

A machine may also be defined as a mechanical instrument performing the operations of the human hand in an accurately calculable and exact manner and usually with a velocity beyond human imitation. (See also definition in Webster's).

(The general language has put "tool" and "machine" in opposition to each other. By "tool" we understand a technical means of work which facilitates and accelerates the process of manual operations but in the use of which the execution of the work depends exclusivly upon the watchful head and hand of the worker. The motor generates and regulates the power, while the work-machine transmits the power upon the economic technical process of work. Both belong together. See Schmoller, Grundriss, I).

138. Mention the economical results of the introduction of the machine.

a) Acceleration of the productive process;
b) Increase of the volume of the product;
c) Reduction of the price of product;
d) Increase of consumption;
e) Gradually, a reduction of the time of labor.

139. Mention the chief social consequences of the introduction of the machine.

a) Displacement of laborers;
b) The factory system;
c) The city;
d) The slum and modern proletariate;
e) Woman and child labor;
f) Impairment and largely disintegration of family life;
g) Injury to character and social dignity of womanhood;
h) The detriment to educational and moral standards for broad classes of the laboring proletariate.

("The amount of misery caused by the machine of the nineteenth century cannot be represented by figures, it is absolutely beyond conception. I think it is probable that the nineteenth century was the most 'pain-ful' of all known ages, and that chiefly because of the sudden advent of the machine", Chamberlain, Foundation or the Nineteenth Century, Vol. II. p. 362.

140. Was the machine an entire novelty in the 18th and 19th century?

By no means. Machines of various nature and industries had existed among the Ancients, in the milling, pottery, spinning industries, etc. But the characteristical mark of the era of industrial revolution is the introduction of the machine on a scale unprecedented and in a so multiform a variety as to create the most complex system of labor division until then thought inconceivable.

141. Of what is division of labor the result?

Division of labor is the result of the increasing minuteness and specialized cultivation of all human activity, and it is always contingent on progress in technics and on the increase of capital. Thus the Phoenician-Egyptian tool technics had determined

for thousands of years the industrial division of labor; advancement of technics in the days of the Renaissance had developed the small workshop of the Middle Ages, since the 15th century, into the manufactories and home industries of southern and western Europe.

142. Mention other factors that have brought about our modern division of labor.

The evolution of our modern and our recent means of communication; the aroused economic instinct and universal greed of profit (since the 15th century or before), inventions and discoveries, the increasing density of population and the corresponding increase of the intensity of competition, the universal adoption of money, the modern market, the exchange (Boerse), modern weights, measures, monetary and credit systems.

143. Sketch the great social and individual results of the division of labor.

The modern division of labor is the great agency of the advancement of culture, of greater wealth and of a larger and more perfect production. The modern state and our entire modern national economics are a result of the division of labor. But it also retarded the moral and physical development and culture of millions of individual laborers and stunted their capacities under the slavery at the machine; the philosophy of Rousseau and his demand for a return to Nature is a protest against the division of labor. Schiller, Hoelderlin, Engels and many others deplore and protest against the "division of man" and his monotonous development. Division of labor has crushed the life and happiness of untold thousands and has stirred numberless rebellions the greatest of which, perhaps, was the Chartist Movement in England, from 1836 - 1848, partly an organized revolt against the machine, and was one of the most potent creative forces of the modern Socialist movement in all countries.

144. What must be done to obviate the baneful consequences of the intensive division of labor?

The factory laborer must be given a reasonable time of leisure for the cultivation of his home and of family life; the married woman must be restored in a greater measure to her home duties, their children must be placed under the educational and hygienic influences of school and playground; child labor must be reduced and must begin at a more advanced age; the laborer must be so employed as to conceive his labor as a social purpose and an individual and social duty; his wage must secure for him a livelihood, and a margin of saving for emergency, sickness and old age, and his work must be ennobled by the influences of culture, moral and religious practice. "Then it will be no longer possible for Socialists to assail the division of labor as the assassination of the people" (Schmoller, Grundriss I. p. 393).

145. What should be the quantitative relation between consumptive and productive capital?

They should be well balanced. An increase of productive as well as consumptive capital is necessary in proportion to the increase of population. For, consumption capital can be increased only by an increase of productive capital (a greater demand of foodstuffs requires a corresponding increase of cultivated land, machinery, seeds and labor). The increase of population is met not merely by an increase of consumption goods but by an increase of productive capital.

CHAPTER VIII.

ORGANIZATION OF PRODUCTION AND GAIN.

Article 1.

THE MODERN CAPITALISTIC UNDERTAKING.

146. **Which psycho-economical phenomenon indicates the advent of Capitalism?**

The dominance of money as the beginning and end of all economic activity.

147. **How would you therefore call the modern undertaking?**

The modern undertaking is a money-capitalistic enterprise for profit.

148. **With whose capital does the modern undertaker operate?**

He operates with his own and others' capital, with standing and circulating capital and in most instances with others' labor. But not every undertaker is an employer (for instance the real estate undertaker and land speculator).

149. **What is an undertaking?**

An undertaking is an economic enterprise for production, or the rendering of services (railways, theatres), or of exchange for the purpose of profit.

150. **Is domestic economy in its isolation and without exchange an undertaking?**

No.

151. Mention the stages of economic development leading up to the modern undertaking.

Domestic economy — overproduction — regular overproduction — regular barter — division of labor — regular medium of exchange — social division of labor by the development of distinct economic vocations and estates (Staende) — the merchant — the city — money capitalism — credit — value capitalism (Effectenkapitalismus).

152. Was the artisan (Handwerker) of the Middle Ages an undertaker?

Yes, in a broad sense. But he produced only for customers on order. The modern undertaker produces not for definite customers, nor on distinct order, but for the market, at his risk. In the domestic economy and in the trader's and artisan's undertaking of the Guild of the Middle Ages, the demand was known, in the modern undertaking the demand is estimated or entirely imaginary. Hence r i s k one of the essential characteristics of the modern undertaking.

(Mutual insurance companies, state munition works, cooperative stores, etc., are not undertakings in the capitalistic sense, for they are not for profit.)

153. Give the chief classes of undertakings.

a) Undertakings for the regular furnishing of services (theatres, newspapers, advertising agencies, barbers, etc.);
b) Undertakings for the regular offering of goods of consumption (taverns, livery concerns; or mixed, offering services and commodities: sanatoriums, hospitals, burial establishments, hotels);
c) Undertakings for regular exchange of commodities (the entire merchant trade);
d) Undertakings for transportation of persons and goods;
e) Undertakings for production;
f) Undertakings for credits.

154. What is the plant of an undertaking?

The plant of an undertaking (used synonymically with "undertaking") is the organization of the enter-

prise in its technical and executive totality: factory, shop, auxiliary buildings, warehouses, offices, personnel and code of rules governing the undertaking. "The plant is the technical unit of the undertaking".

155. What are mixed plants?

Mixed plants are a complexity of establishments mutually complementing each other in the various stages of the manufacture of the final product: ore mines, coal mines, furnaces, rolling works. No single plant is complete and independent, but each is part of a technical organism.

156. What are combined plants?

Combined plants are complete plants combined in one hand or management.

(The plant — der Betrieb — furnishes g o o d s o r s e r v i c e s, the undertaking yields profits from capital. The unity of the plant is a technical one, the unity of the undertaking is economic.)

157. By which stages has the evolution of the present-day large plant been accomplished?

By the stages of H o u s e - w o r k (Houswerk, home industry), W a g e - w o r k (Lohnwerk), H a n d i c r a f t (Handwerk), Lager-Stock or Supply system.

158. Explain each of these stages.

House-work = production for home consumption;
Wage-work = production for a wage in the house of the employer (remnants of which survive in the installation industries such as electrical, plumbing, decorating, painting and frescoing);
Handicraft = production with the worker's own tools and rawstuffs in the home of the worker for customers on order;
Lager-system = production by small masters for employers or undertakers who sold the products in a magazine or lager-house not belonging to the masters. This system is the beginning of real great undertakings and of centralization.

159. When does the Lager-system begin?

This system prevails from the decline of the in-

dependent handicrafts until the second half of the 18th century, and from this time the workers begin to be centralized into one shop of the undertaker. This latter style of work is the Manufacture system, in which manual work is still predominant. In the last quarter of the 18th century the Manufactory (hand work) is displaced by the Factory (machine work) ,in which mechanical work and mechanical power are the characteristic features.

160. What, then, is a Factory?

A factory is the centralization or the assemblage, for purposes of production, in a building, of a larger number of laborers who, with the application chiefly of machinery and power work hand in hand toward the common production of the same commodity, distinct partial operations being assigned to the several workers.

161. Is the factory a benefit to society?

Decidedly so, despite the social ills (later to be considered) it has brought in its wake. The factory is a social and economic progress for the same reasons that made the machine a factor of progress. Besides, factory inspection has made possible a system of labor protection and of mass hygiene not to this day realized in the numerous small workshops and the sweating industry (largely home industry).
(v. Schulze-Gaevernitz "Der Grossbetrieb ein sozialer Fortschritt".)

162. Mention the characteristics, demands or consequences of large scale plants and of the factory system in general.

a) Large capital in proportion to the single product;
b) Regular sale on open market;
c) Distinct forces of management beside the executive labor;
d) The dominance of financial and speculative ability;
e) Minute division of labor;
f) Intensified system of technics;
g) Social and economic contrast between managers and workers.

(The social-economic characteristic of factory production is q u a n t i t y, that of the handicraft is q u a l i t y. The gilds of the Middle Ages, and the numerous handicrafts surviving to this day!)

163. Is there such a thing as over-specialization through the factory and the consequent intensive division of labor?

Yes. And this excessive ramification has made it difficult for the specialist producer to survey the market and has often led to over-production in spcialized, partial products, or of the whole product in a stage of semi-production (f.i., yarns, raw leather, with a sinking demand for textiles and leather goods).

164. May we speak of a general absorption of small and middle-scale plants by the large plant?

No, neither in industry, nor commerce and not at all in agriculture. However the process of absorption has been most marked in industry. Nor is it desirable that all handicrafts be maintained at the sacrifice of superior technics and the sacrifice of lower prices, and least of all at the cost of an insupportable competition with foreign producers — so long as the discontinuance of a strong and broad middle class is not involved.

165. Do the small concerns in handicrafts seem to be doomed?

No. They have received a new lease of life by the introduction of technics and power-driven machinery. They are much in demand in countries with specialized tastes. Some of the most finished and most artistic products in textures, in woodwork, in carving and engraving are produced in the modernized small shops of the handicrafts. The small handicraft in many lines of production continues to this day the heir of the high standards of the mediaeval gild.

166. Is the problem of concentration of plants also a social problem?

Decidedly so. Production on a large scale may mean a larger consumption by the masses, but the

greater issue is the preservation of an economically and technically independent class of producers, sellers, and farmers, the stamina of a strong middle class.

Article 2.

THE UNDERTAKER AND HIS FUNCTIONS.

167. Which are the functions of the undertaker?

a) The undertaker bears the economical and technical risks;
b) He organizes and directs the undertaking and its plants.

The quality of undertaker is shared by the collective bodies of directors or ministerial colleges employed by the proprietor - undertaker in such great undertakings as those of the U. S. Steel Corporation, the large packing concerns, the Krupp, Siemens, and others. The chief directors of such concerns, really employees of the undertaker, are functionally undertakers, legally they are not.

168. What are the stockholders in a big undertaking?

Legally they are undertakers, functionally most of them are not. (The mobilization of the capital of an undertaking, in the form of transferable shares, stocks, bonds, has been styled the dis-personification of capital).

Article 3.

THE LABOR CONTRACT.

169. **What does Contract essentially imply?**

Freedom of social and economic action and, in most cases, the existence of the sanction of the state enforcing the contract.

170. **What is the labor contract?**

A bilateral obligatory contract by which labor is promised in consideration of a wage or equivalent consideration.

171. **What is the object of the labor contract?**

The performance of labor on the one hand and the payment of a remuneration on the other.

172. **Does the employer, in the contract, acquire the person, the capacity, the single performances (Arbeitsleistungen), the result of labor (the product) or the total exchange value of this product?**

The employer by the labor contract acquires the legal title to the performance of certain work only and the profits he may reap from its product, the laborer acquires a title to the stipulated wage. The labor contract as it obtains today does not constitute a legal partnership between employer and employee as to the profits of the undertaking.

173. **What would such a partnership contract, if entered into, entail?**

It would entail irksome hindrance of the initiative and speculative daring of the employer; partnership of risk and loss for the laborer, and the very difficult problem of the apportionment of the net volume of profit to undertaker, officials, and laborers, to mental and executive (labor) ability.

174. **Is the labor contract a purchase contract?**

By no means, for labor does never represent a

commodity but is a category inseparably connected with the laborer.

(It was the fateful mistake on the part of the classical economists to rate labor with commodities, and Brentano correctly argues that, if labor is truly a thing, a commodity, then our modern labor relationship is truly wage-slavery, as Socialists declare. And, again, if labor is a commodity, then the price of labor is determined only by supply and demand. The fatal consequence of this social heresy of classical economy is the elimination of the ethical and social relations between laborer and employer: the dis-personification of labor).

175. State the doctrine of Smith and Ricardo on the wage of labor.

According to Smith and Ricardo labor is the measure of the exchange value of goods. Labor determines the value of goods, their natural price. A thing is valued according to the measure of labor its production would involve for one. This labor has its natural price which is equal to the price or the labor required to reproduce the laborer's strength, to found and rear a family. The market price of labor determined by supply and demand, oscillates about the natural price. It cannot long rise above the natural price for if it does the laborers will show a more rapid increase in population which will result fo a consequent oversupply of labor, and the price of labor will fall. Nor can labor long continue under the natural price, for in that case laborers will show an increase of mortality, sickness and general misery, there will be a scarcity of labor and the price of labor will rise in consequence of this and of a greater demand. This law was called by Lasalle the "iron law of wages."

176. In what relation does the iron law of wages stand to the Malthusian theory?

It confirms the Malthusian theory of pessimism and takes the inevitable misery to the working class, resulting from overpopulation, for granted.

177. How do you refute the iron law of wages?

There are some laborers to whom the facts of

the law apply but not on account of the inherent correctness of the law. For the majority of laborers these facts should be considered:

a) Not all laborers have the same wages.

b) The wage has oscillations even among laborers of the same group.

c) The minimum limit, spoken of in the iron wage law. obtains mostly for married laborers, and not

d) Even the minimum for the married laborer is for all of them.

d) Even the minimum for the married laborer is subject to change and has steadily risen in the past century.

e) Labor organizations, improvements in the methods of production and the economic conduct of the laboring class itself will neutralize and has set aside the law.

f) The movements of population (increase of marriages and offspring or the decrease of either) as a consequence of higher or lower wages are so slow and gradual that their effects can easily be compensated by changes in the methods of production.

178. What is the Wage Fund theory?

The wage fund theory is the doctrine of a number of the classical economists according to which, the capital of undertakers being of a given fixed quantity at a given time, the wages of the laborers will be definitely limited by this quantity of capital, only a portion of which, however, can be used as wages. The wage available from this fund for each worker at a given time is furthermore determined by the number of laborers employed. This wage fund is capable of increase through saving and through an increase of wealth, and only, inasmuch as such growth of the fund takes place is there possible an increase of the wage. provided the laborers themselves have not increased faster than the fund. Any increase of wages granted before an increase of the fund will result in the falling off of wages of other laborers dependent on the fund.

179. What may be said to refute the wage fund theory?

a) It cannot be said or shown that any given or fixed portion of capital is set aside, or is only and

exclusively available for wages because all units of the national wealth can be made available for production by way of credit;
b) the quantity of labor and consequently the wage quantity of the individual undertaking is not fixed and, moreover, is dependant on the technical composition of capital in general and of the capital of each undertaking (f.i., instead of 25 type-setters in a printing office install a few linotypes operated by two, three men);
c) the final payment of wages is not made from the capital of the undertakers but from the income of the consumers. There is, therefore, no fixed quantitative relation between capital and necessary limit of wages.

180. Is there not some truth in the wage fund theory?

Yes. And it is: While credit may, indeed, increase the available fund of wages, the amount of credit will depend on the quantity of capital seeking credit, and on the agencies of credit — the banks and other credit institutions. Hence there is a certain limit to the posible wages at a given time, and the limit is determined by the limitations of capital and its possible uses at a given moment.

181. In what other way is there a limit to possible wages?

By the fact that all real income is limited by the supply of goods and by the productive organization of a national economy. The total of all real partial incomes is only equal to the total national income. This national income is divided as wages, rent, interest, and profit according to the conditions of the market, the prevailing rates of rent and interest.

182. Which moments constitute the characteristic position of the laborer in our capitalistic scheme of economy?

a) Not the (often only alleged) fact that the laborer is limited to a minimum of standard living or a minimum limit of wages.
b) But, by the obligation or hindrance of the person of the laborer through the labor contract.

c) The uncertainty of employment and the consequent uncertainty of labor income.

183. **Can the wage of the laborer be appreciably increased beyond its present maximum, or average, for that matter?**

No; Not if the increase is to be made at the cost of the rest of society. Since all real incomes must be carved out of the total national real income (the quantity of goods produced) the only increase that will be felt as a benefit and that will endure is an increase resulting from a greater total national product. Especially in the present crisis of the world and of the United States in particular, an increase of national productivity alone will be a guarantee against national economic and political ruin.

184. **Why is the labor contract not a contract of rent or lease?**

Because in the rent or lease the object of the contract enters, in its uses, into the possession of the renter, but must be returned unconsumed. The capacity of labor, however, and the performance flowing therefrom, are consumed and must be daily reconstructed or restored for a renewed use.

Besides the use of the labor capacity and its single performances are made not by the employer but by the laborer himself. (The labor contract is, therefore, a unique contract with mutual obligations. The elements of labor may be said to be three: physical and intellectual and moral force — sense of duty.)

185. **Is there an absolutely secure criterion for a just wage?**

No. The problem of a just compensation of labor is insolvable on account of the incommensurability of labor and wage, of labor and commodities; on account of the unknowable proportions in which capital and labor contribute to the productive process; on account of the difference in quality and quantity of the labor of the same class of workmen employed on the same kind of labor; on account of the incommensurability of mental and directive and physical and executive labor.

186. Mention the principal criteria that have been put forward as attempts to solve the problem of the just wage, and offer criticism.

a) The theory of the prevailing rate of wages, which is ambiguous, and may mean the lowest or the highest rates most frequently prevailing. The criterion presumes to raise a fact (the prevailing rate) to the dignity of right (the just wage).

b) The theory of value-equivalence, i.e., an equivalence between the labor and the remuneration. But this equivalence it is impossible to determine. Nor is it possible to ascertain whether or not the net gain of the employer (his profit) is equal to the net gain of the laborer (the net difference of advantage gained at the cost of the inconveniencec involved in his expenditure of time and energy.)

c) The criterion of free contract, be it ever so perfect, can never define the just equation between labor and wage; but the freedom of contract mostly does not exist.

d) The mediaeval criterion of the "justum pretium" is not applicable to our atomistic state of society and economy; for the estates of the Middle Ages and their corresponding standards of life are not recognized today. The labor-value and use-quality of goods were the criteria of their value, and labor-value in its turn was measured by the standard of living to which each member of an estate was entitled. Hence the social needs of the laborer became the gauge of value of his labor, irrespectively of the intrinsic value thereof. But class needs cannot function and cannot be considered as a measure of equivalence of exchange, or a common denominator of wage and labor, for if they did, the adoption of this criterion would necessarily be based on an ethical consideration, the personal dignity of the laborer.

e) The theory of labor productivity, in virtue of which productivity the entire product of labor belongs to the laborer. This theory ignores the legitimacy of rent and capital for which there is a strong presumption. Inasmuch, besides, as this theory is based on the labor-value theory, it is altogether wrong, because the value of product is not measured ultimately by labor, but by utility and scarcity.

187. What, then, is a criterion of a just wage?

Such a wage as will insure to the laborer a minimum of physical and decent cultural subsistence in accordance with his dignity as a person. This wage includes the necessaries of life, opportunity of saving for emergency, sickness, old age, the reasonable enjoyment of amusements, the perfection of his moral, religious, and cultural personality.

188. Who is to pay this living wage?

In our present organization not the State, but the employer who is the economic functionary of society as wage payer.

189. Is the living wage a fully just wage?

Not necessarily. It very likely is for the inefficient worker whose inefficiency is not the result of a moral defect of his own.

190. Which factors constitute a claim to a higher than a living wage?

Unusual sacrifice in the performance of labor, risk, unusual efforts, cost of preparation, or disagreeableness of the work to be performed. (See especially Distributive Justice, by Dr. John Ryan).

Article 4.

LABOR TARIFF CONTRACTS OR TRADE AGREEMENTS.

191. What is a labor tariff contract?

A labor tariff contract is a contract concluded between the organizations of employers and the organizations of the employees for the purpose of establishing obligatory norms or tariffs according to which future labor contracts, collective or individual, shall be made, within a period of time specified in the contract. The labor tariff contract settles the sched-

ule of wages for a longer period and serves as a basis for individual contracts.

192. What are the purposes of the labor tariff contract?

Stabilization of the labor market; of labor conditions; to provide a secure basis for contracts on the part of manufacturers or builders and undertakers in general; to secure industrial peace.

193. Does this kind of contract bind the laborer immediately?

No; for the labor tariff contract is not a contract to yield labor, but a contract determining the content of the labor contract. (The labor tariff contract is a new juristical category. In England it has won great importance, so in Germany and France and Australia.)

194. State and refute objections to trade agreements.

a) They coerce the laborer and subject him to the labor syndicate. — This may be true, but it is a better condition than the individual labor contract would insure.

b) They equalize or standardize unduly both to the disadvantage of the employer and employee. — They do. But this disadvantage is hardly avoided in the common group contract, and it is amply compensated for by the advantage of wage stabilization and industrial peace. Besides, it settles at least the problem of a minimum wage and of a minimum labor performance.

c) The undertaker is handicapped, by trade agreements, to meet foreign competition possibly not so hampered. — This disadvantage can be obviated by elasticity clauses and by international agreements on labor legislation, proposed as early as 1890 by former Emperor William II.

195. What are essential parts of a trade agreement?

a) A preamble, defining the parties to the agreement, its scope, duration, and purpose;

b) A legislative code, the working rules; these rules sometimes cover the minutest details of conditions, time, and payment of work;

c) A code defining the mode of interpretation;

d) An executive code, defining the method and means of enforcement. (However, not all trade agreements have all these parts).

196. Are trade agreements enforceable at law in the United States?

No, at least no definite machinery exists, or has been generally accepted, for their enforcement. Enforcement largely rests with joint boards or standing commitees composed of members of either party.

197. What are trade agreements at best and what is their tendency and import for future development of the labor movement?

Trade agreements are not peace, but a mere truce. But they are steps toward a fuller control of industries by labor. ("They are an entering wedge toward industrial democracy and abolition of the profits system... This is the larger aspect of unionism and in this sense collective bargaining is a solution of the labor problem", Hoxie, Trade Unionism in the U.S.)

CHAPTER IX.

FREE COMPETITION— OR THE REGULATING PRINCIPLE OF PRODUCTION AND GAIN.

198. Which are the three fundamental elements of our present economic organization?

Division of labor, private property, and freedom of contract.

199. What is free competition?

Free competition is that system or principle in economic life by which individuals or groups are entitled and prompted to seek their own economic benefit by producing, selling, and buying when, how much, and at what prices they choose, in emulation with, and in opposition to, others.

200. Mention some of the economic-technical consequences of free competition.

a) An increase and greater variation of production;
b) A reduction and equalization of prices;
c) An intensified division of labor and a greater development of technics;
d) An extension of the credit system on account of a more various and extended use of capital and investment;
e) An increase of production, greater consumption, and a rise in the physical and cultural standard of living;

On the other hand, free competition results also in:

Greater risks to individual undertakings as a consequence of the uncertainty of the market and erroneous speculations;

The disappearance or crippling of undertakings with lesser power of resistance to the fall of prices or panic, resulting from overproduction;

Unnecessary, extravagant, and harmful expenditure for advertising, deterioration and adulteration of products in the competitive struggle;

Production of commodities not the best from a national-econmoic viewpoint, but such production as promises the greatest margin of gain.

201. Mention some social effects of free competition.

a) An incentive to initiative, personal responsibility, thrift, ambition to labor and to invent.
b) Disregard for the person and family and other interests of the laborer, child and woman labor, insecurity of labor or unemployment on a large scale (in consequence of industrial speculative errors, crises, and panics.)

202. State the general classes of limitation of free competition.

They are: natural, social, legal.

203. Mention some limitations of each of these three classes.

Natural limitations: the place of production, supply of raw stuffs, transportation, the size and natural and technical structure of the population, etc.

Social: structure and supply and extent of markets, social intercourse, custom, mores (prohibition, clean films, clean literature and theatres and a demand for them), public opinion, coalition of competing groups — labor unions and employers' associations, and monopolies.

Legal limitations: state monopolies, patents, and copyrights, tariffs, labor laws and factory legislation, usury laws, contract laws, and price tariffs established by public authorities.

204. What is a monopoly?

A monopoly is such a position of advantage in

the market as will render a producer or a buyer or a seller immune from the competition of others.

205. **Which factors in the world of competition are conspicuous and socially and economically most important for the monopolistic tendencies?**

Labor organizations and employers' or undertakers' associations.

CHAPTER X.

LABOR UNIONS AND UNIONISM.

Article 1.

WHAT UNIONS ARE.

206. What is a labor or trade union?

A labor union is a "continuous association of wage-earners for the purpose of maintaining or improving the conditions of their employment" (Webb).

207. What is collective bargaining?

Collective bargaining is a mode of fixing the terms of employment by means of bargaining between an organized body of employees and an employer, usually acting through duly authorized agents. (Hoxie.)

208. What does Unionism in general denote?

Unionism is not only the collective term for labor organizations, but denotes class consciousness, a complex of social and economic ideals, purposes and is by no means a homogeneous category. Unionism has not a single, common genesis, and is extremely various, contradictory, at war with the groups it includes, functionally and stucturally diversified, essentially an opportunistic phenomenon. It is one of the most complex, heterogeneous and protean of modern social phenomena.

209. In what manner may we arrive at a sound and secure understanding of what unionism is?

By the study of its distinct types, which are either of a structural or of a functional nature, or both. The structural types include the craft union, i.e., an organization of wageworkers in a single occupation (railroad engineers,. Secondly, the crafts union, i.e., a federation of unions of different crafts or industries (city, state, and national), f.i., the Columbus Federation of Labor, Ohio, U. S. etc. (These structural types appear under many different titles such as trades councils, assemblies, central labor councils, central federated unions, etc.). Third, the industrial union, based not on the craft but the industry and uniting into one organic group all workers engaged in turning out one definite product, or a series of closely related products, for instance all the workers in the brewing trade, as brewers, maltsters, bottlers, packers (the local or national industrial union of brewers includes all the groups of workers mentioned, in city, or nation). Fourthly, the labor union, i.e., the organization of all workers regardless of craft or industrial division, and it exists in local, district or larger divisions.

210. Which functional types of unions do we distinguish in unionism?

These four: (a) the business union, which is more trade-conscious than class-conscious, and has the trade interests of wage, time, and other work conditions in view. It is conservative, recognizes capitalism, contract, uses unionism mainly as a bargaining institution. It is temperate, economic, well disciplined, but strikes when expedient (well represented in the railroad brotherhoods).

(b) The uplift union, idealistic in viewpoint, conservative, interested in moral, intellectual social uplift of worker, his leisure for culture, better wages, mutual insurance, leaning toward cooperative and profit sharing enterprises (Knights of Labor. The uplift union and the business union are probably two varieties of one type more comprehensive than either variety).

(c) The revolutionary union, radical,

class-conscious, bargaining and other helps are only makeshifts, the goal is Socialism, or its aim is anarchism (the former in the Western Federation of miners, the latter in the I. W. W. and in syndicalist unionism).

(d) The predatory union, either conservative or radical, trade- or class-conscious, secret and quick in its operations to attain its immediate ends by good or bad means, regardless of law or moral, and generally without principles or character (subdistinguished as hold-up union and guerilla unionism, the latter never favoring employers, unlike the former, and ruthless, violent, cannot be bought off (represented in Bridge and Structural Iron Workers. Also dependent unions, sometimes started by employers to secure the benefits of real unions, to wit, the union label, sympathy, and direct financial assistance).

211. Do these types respond exclusively to the unions named after them?

No, but the types predicated of the respective unions represent the dominating force and characteristic. A union, indeed, may develop a variety of attitudes corresponding to all these types. But the real significance of unionism as a social phenomenon and problem is functional, not structural. "The functional type is a specific case of group psychology. It is a social interpretation and remedial program held by a group of wageworkers. The structural type is one organic form in which it may clothe itself." Hoxie.

212. Do the union programs reflect the pure union type?

Rarely so; and for this reason the multiple-type nature of unions has too often escaped notice. (Unionism and its forms are not a finished product but a social phenomenon in constant flux, dynamic. Besides, unions are pragmatic: they continually adapt themselves and their policies to new conditions, or new members affect these external policies, while the original union type persists.)

213. What does it mean that unionism is nonunitary in character?

This means that the genesis of unionism cannot be explained monistically, i.e., through identical causes, but throguh different causes, and that the functional differences in unions are the result of diverse combinations of environmental, racial, temperamental and traditional elements urging the workers to group action.

[Note. The union to be successful and enduring must be autocratic. "As a democracy no union would last six minutes", says one union leader. Strong officers at the top are needed. Sometimes they fall victims to prosperity and to the "mahogany" table. This is a great weakness of unionism — "it dies at the top" Hoxie.]

214. What or who is the walking delegate of a union?

The general executive officer of the local, elected by popular vote, legally incompetent to act otherwise than on the union's responsibility; he deals with the employer for the union, controls the enforcement of the union rules on either side, sees to the financial, membership, attendance and other interests of the union and is a harmless officer, though he may at times become an irrepressible autocrat, not easily removed if he has succeeded in making himself indispensable to the worker by his aptitude, his business knowledge, his persuasive power, his acquaintance with the labor market and the employers. He is the "ward boss" of the union.

215. What is the trade union's program?

Negatively it is not merely an economic one including the standard of living; positively, it includes the whole social philosophy or theory of the worker, his conceptual world. But it does not include the welfare or even better standards of living or wages of the whole working class, but only of the group. (Uniformity of wage, a standard rate of wages, at least as a minimum — standardization downward, or standardization of the slowest worker, with speeders eliminated — are the chief principles back of the collective bargain).

Article 2.

MILITANCY OF UNIONISM.

216. What is a strike?

A strike is the simultaneous cessation of labor on the part of a body of laborers for the purpose of enforcing the acceptance of a certain demand or of demands upon the employer.

217. What is a lockout?

A lockout is the action of the employer excluding his employees from the shop or from work therein for the purpose of reducing recalcitrant employees to subjection or, generally, to enforce the employer's terms upon them.

218. Are strikes morally justifiable?

Yes, as much so as unions themselves, provided the strike is used as the means of last resort to compel compliance of the employer with a fair demand of the employees. The strike, however, appears to be morally unjustifiable in most cases affecting public utilities, public safety of property and person (firemen's, policemen's and railroad and postmen's strike). But it cannot be said that a strike of employees on public utilities or necessaries would be morally unjust under every circumstance.

The conditions of a just strike may be summed up as follows:

(a) that there be a just grievance;

(b) that other means of settlement and conciliation have failed;

(c) that there be no violence nor destruction of property;

(d) that the benefits to be derived from the strike exceed the damage and suffering ensuing from the same.

219. What is a boycott?

A boycott is the action of individuals or usually

organized groups by which they attempt to bring an employer or other undertaker to terms, or punish him by excluding him from the market of materials, or by withholding, or inducing others to withhold, business relations from him. — Its moral licitness is to be judged in the same manner as that of the strike.

220. **Why may the boycott prove a more formidable weapon than the strike?**

Because it attacks the employer or the undertaker at his weakest point. While in the strike the attacking party, the laborers, are only the holders of specific "goods", their labor, and the employer, the possessor of ready money (easily convertible into other goods), in the boycott the conditions are reversed: the employer being in possession of unsalable goods and the boycotters in possession of ready money, easily convertible into goods elsewhere.

221. **What is Sabotage?**

Sabotage is the destructive action of the workers applied to the processes of industry, affecting the quantity and distribution of the product.

222. **What is an injunction?**

An injunction is an order issuing from a court of equity for the purpose of preventing injury or of preserving the status quo until the final determination of rights. — It is an extraordinary remedy of law and is mostly invoked in favor of property rights whose construction or assumption is in the discretion of the court.

223. **What do injunctions cover?**

Injunctions do or may cover almost anything that courts may consider a possible irreparable violation of property. Violation of injunction is contempt of court entailing fine or imprisonment.

225. **Is the boycott legal when enacted by a union?**

Yes, unless the court declares it to be in restraint of trade.

226. **What is the secondary boycott, and is that lawful?**

The secondary boycott is the boycott of the

merchant who sells the employer's goods, and it is in most cases unjust.

In the case the boycott is directed not against their own employer, but another employer or undertaker who buys or sells the other's products or rawstuffs, the boycott must be judged by the same canons by which the sympathetic strike is judged. A purely sympathetic strike is a strike declared against an employer against whom there exist no grievances, but against whom the strike is declared merely for the purpose of supporting a strike against another employer by other laborers. If the original strike is just, and if the victim of the sympathetic strike through his business relations with the victim of the first strike supports the unjust employer in his unfair treatment of the laborers, and the sympathetic strike seems reasonably to be the only means of redress, then the purely sympathetic strike may under very urgent circumstances be justifiable. The same holds of the secondary boycott which should not be resorted to except in very extreme cases.

227. **What do you know of the general relation of our present-day law to labor?**

Our present law is out of joint with the new economic conditions, is especially out of harmony with the social position occupied by labor and capital respectively, and has a tendency to be unfair to the former and unduly favorable to the latter.

228. **How do you explain this disharmony of law and the social position of labor and capital?**

Our present law is based on the absolutistic concept of society represented by Quesnay and the entire physiocratic and the individualistic school of Adam Smith. According to their absolutistic concept there exists a fixed social constitution, fixed social relationship and fixed positive norms of right and justice, based upon a natural order conferring the natural and inalienable rights of property, individual liberty, free economic competition and freedom of contract. This social concept, social philosophy, a product of the 18th century, was the reaction follow-

ing the era of economic and personal restriction and was legitimate and rational at its time. The law which was framed upon the social philosophy was in harmony with the conditions until the errors of this social philosophy of natural right, and the disharmony resulting from economic freedom were revealed in the course of the industrial revolution whose beginnings were contemporaneous with the origin of this philosophy and its corresponding law. The operation of free contract and of free competition resulted in social and economic inequalities with which the law was no longer in accord and became false and untrue. In England the law was first framed upon this new philosophy of the 18th century and thence it was translated to America and to the continent. The rights which the law chiefly guarantees and defends are the rights of property and equal protection of the law, individualistically conceived and interpreted, that is, conceived with no regard for society and its welfare. The social philosophy at the bottom of our law assumes the existence of unchangeable social rights; it assumes the individual as the basis and the center of society, it knows no society other than a mere aggregation of individuals and no social welfare apart from individual welfare. It assumes that what is right once must be right always, and is essentially different from the evolutionary concept of society which assumes a development of social constitution, changing social relationships and relative standards of social right and justice. The evolutionary concept of society and of law is, contrarily to the absolutistical, teleological (purposive), inasmuch as rights and law exist to meet changing social conditions, needs, and circumstances. Accordingly, the absolutistical existing law inclines to protect private property more than personal and social rights.

229. **What are the principles to be observed by the State in changing its laws to right economic wrong and to bring the law into harmony with actual social conditions?**

(a) The transition from old to new law must be gradual, successive, and continuity with the past,

must not be interrupted (the institution of property must not be abolished, in order to construe a new and more just distribution, and a juster property law.)

(b) The change must not be made by arbitrary compulsion but with the cooperation and assent of the people.

(c) The change must be accompanied by a cooperation of its beneficiaries, who are to render themselves worthy of it by their own personal effort.

(d) The change, inasmuch as it affects property, must affect its victims on an equal basis, and not arbitrarily.

230. **Mention some of the means by which the State can effect a gradual and more just distribution of property and income.**

By a system of education by which capacity for industrial success is distributed more equally;

By measures insuring a more normal family life to the lower classes (factory, building and sanitary laws);

By a juster and fuller legal recognition of organized labor, as against organized capital and employers;

By a system of taxation weighing more upon property than labor;

By a rational and progressive income and inheritance tax, preventing an undue accumulation of wealth while not stifling the spirit of enterprise;

By a stricter legislation against unfair dealing and profits;

By a rational policy of land reform and public ownership of land and public sale to eliminate land speculation;

By a restriction of the size of large land holdings;

By favoring the smaller and weaker producers in the allotment and placing of State orders for commodities and many other means.

231. **Give a sketch and data of import of the International Workers of the World.**

Launched in 1905 as a protest to craft unionism

and the conservatism of the American Federation of Labor, and under the impulse imparted by the cruelties of capitalism in the Colorado Cripple Creek strike of 1903, the I. W. W., a utopian, revolutionary, direct actionist, largely proletarian organization, never attaining a respectable membership, hardly over an annual average of 6,000, a loose, ill-connected federation of locals, with internal dissension of members and with centrifugal tendencies of control, with no organic unity, very miserable financial resources, and these ill-managed by the locals and scandalously and frequently stolen by the secretaries, given to hero worship, defiant of law, proud of imprisonment, honeycombed with secret committees and spies from their own ranks, partly syndicalist, bent on the violent overthrow of the capitalist order, industrial unionism since 1908 in bitter conflict with revolutionary syndicalism in the organization itself, the latter being for decentralization, the former for central control, never growing in strength of organization, spasmodic in action, with no hold on its membership, discredited before the public, with no attraction to the American workman who is practical and wants immediate results—seems not to be the terror which it has been represented to be in the press and in literature.

Article 3.

SCIENTIFIC MANAGEMENT.

232. Describe the general scheme and purpose underlying the various systems of "scientific management."

"Scientific management" is, theoretically, "an attempt through accurate industrial analysis to discover and put into operation the objective facts and laws which underlie efficiency in production. In its

broadest and best application it attempts through this process of analysis to determine the best location and structure of the shop for the particular manufacture designed; the most efficient processes and methods of production in general and in detail; the material, organic and human arrangements and relationships best suited to further the productive process; the most effective character, arrangement and uses of the machinery, tools and materials employed; the methods of selection and training of the workmen and managerial force most conducive to efficiency; the character and amount of work which can and ought to be performed by each member of the labor and managerial force; the payment to be awarded each individual in the interests of efficiency and practice; and in general it aims to discover all the material, organic and human qualities, arrangements and relationships which will result in greatest output and lowest cost" and "the principal and distinctive device by which scientific management attempts thus to discover and put into operation the objective facts and laws of industrial efficiency is time and motion study." (Hoxie.)

233. **State some of the reasons why unionism is opposed to scientific management.**

Because scientific management in the unions' opinion,

(a) Aims at increase of profits, not wages;

(b) It tends to industrial autocracy;

(c) It is a cunningly devised and concealed effort at speeding up and sweating;

(d) It destroys the craft by over-specialization;

(e) It is destructive of continuity of labor conditions and of employment;

(f) It is incompatible with collective bargaining;

(g) It is essentially dynamic while unionism and the labor agreement are static in their tendencies and are for the maintenance of the status quo in industry, and it is intrinsically opposed to the union principle of standardization, **downward** of efficiency and **upward** of wages.

234. **Does scientific management accomplish all it promises?**

No. But it has decidedly added to productive efficiency despite its topheaviness, that is, despite the managerial apparatus necessary to keep it in operation on scientific principles. Nor is it entirely scientific in the sense that time and motion study ascertain the objective scientific facts covering the amount of work a person can be scientifically shown to be able to do, because this time and motion study leaves out of the calculation the very important elements of human will and judgment which vitally affects the results of that study (for instance, the severe or lenient attitude of the employer or the time-study man, the hostile or benevolent attitude of the worker; the degree to which the time-study has been carried; care, recklessness, atmospheric, mental, physical conditions of the student and the time-study man, etc.) Therefore, time-study may be scientific in its technical and mechanical aspects, but hardly so when it transcends these spheres and leaps over to the psychophysical human sphere.

235. **Is scientific management applied to any considerable extent in modern enterprise?**

Yes, and it has offered valuable suggestions which the industrial world cannot well ignore. It has been, especially in its more purely psychological functional capacity and responsiveness in the worker to specific tasks, especially such as require quickness of apprehension, combination, time sense, space sense and decision, applied in the interest of telephone, steamship navigation, electric railway service, aviation. See also Hugo Muensterberg, Psychology and Industrial Efficiency.

Article 4.

MEDIAEVAL GILDS.

236. What do you know of the Mediaeval gilds?

The mediaeval gilds were either exclusively religious or charitable, mutually protective, or political, or economic brotherhoods or associations, sometimes powerful combinations of craftsmen and merchants, endowed not infrequently with public administrative powers, enjoying certain trade and other privileges and in the case of the craft and the merchant gilds, were the chief agencies of economic progress and culture and the dominant factor in the public affairs of mediaeval cities.

237. Which gilds are of economic relevance?

The craft and merchant gilds (geldan, the fee of membership, or gield, gildi, kelt, a sacrificial drinking feast connected with the gild), also Zunft (Zusammenkunft, or the opposite of Ungezunft—disorder, whereas the Zunft represented order) which prevailed extensively in England and Germany, Italy, Spain, France, Belgium and Holland and in Scandinavia. (However, all the trades, even professors and pupils, physicians and grave diggers, scavengers and scholars were united in these organizations of the gilds). The industrial and merchant gilds were the associations of independent artisans and merchants.

238. When do economic gilds (Zuenfte) first appear?

In the beginning of the 12th century (in German cities Worms, Wuerzburg, Cologne, Magdeburg, etc.)

239. Were the aims of these gilds exclusively economic?

No, but preponderantly economic. They likewise pursued religious, charitable, military and political and social aims. The gilds' economic aims were chiefly to safeguard the rights of the consumers by furnishing solid, good, conscientiously executed wares of every description and to insure to the members of

the gild a secure and adequate price and a respectable standard of living. As a guaranty of the maintenance of excellence of workmanship no member was admitted unless he had proved his professional competence by furnishing a masterpiece according to the severe requirements of the gild. The membership of the gilds was composed of apprentices, journeymen and masters (Lehrlinge, Gesellen, Meister). The decline of the gild system sets in with the 30-Years war.

240. How may the mission and the work accomplished by the gilds be summarized?

They were economic organizations for the advancement and protection of their crafts, for the protection of the interests of the consumers, to uphold the honor of their trade and of the city, the chief bearers and promoters of whose splendor they proved themselves; they were the invaluable depositary of the human and technical education of a large portion of society, exponents of professional honor and champions of the rights of honest labor, the living expression of economic solidarism or community of social-economic interests so ruthlessly denied and destroyed by the philosophy of individualism. They were imbued with a deep christian spirit and in them the social ethics of the church achieved one of the finest triumphs of christian civilization. The capacity of the Catholic Church for social leadership and her competency to guide society forward to the goal of true culture, economic prosperity and christian concord has been signally demonstrated in the history and the beneficent mission of the gilds which with the entire civilizational influences emanating from them are perhaps the finest and most magnificent monuments ever reared by any social philosophy. The gild system of the Catholic middle ages is the school at which our own present age will have to learn anew the principles for the social, economic construction of the world. "The gild was an organization for the working middle class, for capital and the men of wealth; it was a station of peace in the great world-historic struggle between labor and wealth, but such

a one which was most favorable to labor working with a small capital." (See Schmoller, Tucherzunft, and Grundriss.)

NOTE—A class of brotherhoods which deserves special mention is that of the gilds of the mining trades, which from an early date were very important in Saxony and Bohemia. "No politician or socialist of modern times," says H. Achenbach (Gemeines Deutsches Bergrecht, I, 69, 109), "can suggest a labor organization which will better accomplish the object of helping the laborer, elevating his position, and maintaining fair relations between the employer and the employed than that of the mining works centuries ago." The statutes of these mining gilds show, indeed, a remarkable care for the well-being of the laborer and the protection of his interests. Hygienic conditions in the mines, ventilations of the pits, precautions against accidents, bathing houses, time of labor (eight-hours daily—sometimes less), supply of the necessaries of life at fair prices, scale of wages, care of the sick and disabled, etc., no detail seems to have been lost sight of. P. J. Marique in "Guilds," The Catholic Encyclopedia.

CHAPTER XI.

JURIDICAL FORMS OF UNDERTAKINGS

Article 1.

JOINT STOCK COMPANIES, ETC.

241. **State the juridical nature of the individual undertaking.**

The individual undertaking is one in which burden, risks, and profits belong to the individual business man.

242. **State the juridical nature of the partnership undering.**

This is an undertaking in which the risks, burden, profits and losses belong jointly to either or each partner, so however, that in the event of failure of either or any of the partners the other or others are liable for the payment of all the outstanding debt to creditors of the partnership concern. The partners are jointly and severally liable for all the debts of the concern to the extent of their entire fortunes.

243. **What is the regular form of the modern business corporation?**

The joint stock company.

244. **What is a joint stock company?**

The joint stock company is an incorporated undertaking of a plurality of persons, having juristical personality and contributing the corporation capital which is almost regularly marketable and transferable and distributed in shares of an equal par value.

The owners of the capital shares are members of the company. Or the joint stock company is a corporation vested with rights of a legal personality, formed for the purpose of the transaction of regular business, the necessary capital being contributed by the members of the company, stockholders, who are liable for the company's debts, and entitled to its profits, in proportion to their individual holdings.

245. **Of what duration is the charter of this company?**
It may be perpetual or limited to a number of years.

246. **How are they legally founded?**
Either by special act of legislation or under a general incorporation law.

247. **What is the liability of the owners of this company?**
Mostly limited liability, to the extent of their holdings of stock; national bank stockholders are liable for double the amount of their holdings.

248. **Of what nature is the capital or stock of this company?**
Preferred and common.

249. **Describe either class of stock.**
Preferred stock represents a prior claim in the company, both as to the capital and to interest or dividend, which is usually fixed and guaranteed. The preferred stock is a loan to the company.

The common stock represents actual (partial) ownership of the company's capital, and it is not a loan, its dividends are not guaranteed but represent all the dividends remaining after the preferred stock dividends have been paid.

250. **What is a bond?**
A bond is an instrument of credit, usually in the form of a promissory note, bearing interest of a specified rate, usually redeemable at a definite time. Bonds issued by a business corporation represent loans made by the bondholder to the corporation and a prior claim in the company's assets; they are, generally speaking, one form of equity in a business un-

dertaking. (Bonds and stocks are value capital and, as it were, are the shadow of the undertaking whose invested capital they represent or are declared to be. Their value is contingent on the productivity and stability of the undertaking. A bond in a business corporation, denotes credit, stock denotes ownership.)

251. When did stock companies or approaches to it first arise?

Forms of stock companies began as early as the Middle Ages. The Italian city republic had early, for the purpose of diminishing the individual risk of sea trading, developed the sea trading corporation; we find stock corporations in German and Italian trade; the privileged trading companies of the 17th century, possessing the grant of monopoly by state charter, are a more perfect form of stock corporation, such as the Dutch East India Company, composed of many local companies and shipping partnerships (1602); the English East India Company, chartered 1600, dissolved in 1858; in France, similar companies created under Richelieu for the colonization and exploitation of Canada; later the Indian Company, John Law's, French Mississippi Company, 1717-1720 and many other in these and other countries.

252. Which fields of enterprise have been chiefly favored by the early joint stock companies?

Shipping, international and transoceanic trade, mining, colonial, canal, railroad and banking enterprises.

253. Mention some of the largest joint stock companies in the world.

United States Steel Trust; Rockefeller's Standard Oil Company, The Pennsylvania, New York Central, The Southern, and Northern Pacific railways, the German Bank (Berlin and branch banks), Gelsenkirchener Mining Company, Frederick Krupp Works, General German Electric Company, Hamburg American Line, etc.

254. Is speculation in the stock markets of recent origin?

No. It was very highly developed and sometimes was practiced with a rage and mania that has seldom been equalled later, in the seventeenth century, when rich and poor, either sex and people of all walks of life gambled in the great exchanges of those times.

255. **What was the Tulip Craze?**

It was a mania for speculating in the purchase and sale in the Netherlands of rare specimens of tulips, which became the object of as eager and as universal a speculation as any staple or enterprise in later times, tulips being bought and sold as eagerly as railroad stock, and single tulips being bought in the stock markets at fabulous prices, some species commanding prices of ten thousand dollars and more in modern money. In 1637, 123 bulbs of tulips were sold at 90,000 florins, in Alkmar, Holland, and within a few years in a single Dutch city the tulip speculation had amounted to values of ten million florins. (See Sombart, Der Bourgeois.)

256. **State the advantages afforded by the joint stock company.**

The joint stock company renders possible or facilitates the assembling of large capital for great and costly undertakings; it has opened avenues of usefulness and profit to the small saver's capital; it has stimulated small savings and thrift; it has opened wider opportunities for labor, employment, specialization of technics, has cheapened and increased production, stabilized industry and employment, especially in critical periods, has indirectly served to decentralize the building up of fortunes and has tended toward an equalization of incomes and has rendered possible the exploitation and material civilization of distant countries with home money (colonial enterprises, foreign mining and railroad enterprises.)

257. **State some of the disadvantages adhering to the joint stock company.**

Tendencies to reckless, unsound and dishonest speculation are fostered; reckless founding of under-

takings, over-capitalization; topheaviness (too costly and too elaborate personnel of management); lack of sense of responsibility; the impersonality of capital and undertakers carried to extreme; not seldom unwieldiness of management and lack of decision, independence; the divorce of the directorship of the undertaking from its owners (the stockholders); the repression and reduction of independent small undertakers and a corresponding weakening of the middle class (which a century ago was recruited only from the rich land aristocracy.) As early as 1909 incorporated companies in the United States employed 75.6 percent of American wage earners and manufactured 79 percent of all products of manufacturing industries.

258. Mention the chief forms of syndical and co-operative undertakings.

Rings, Pools, Syndicates, Trusts, Kartells, Holding Companies, all of which incline to the development of monopolistic tendencies.

259. What is a Kartell?

A Kartell (in America: pool, in France: les cartes or syndicats) is a voluntary contractual agreement, or an association (founded on such agreement) of independent undertakings founded for a specified period, for the purpose of regulating production and sales, and with a reasonably assured control of the market, to eliminate anarchy of production and unrestrained competition from the circle of its membership.

260. Are Kartells and their purposes uniform?

By no means, they are of the most various nature, the chief objects of the Kartell agreements being:

(a) Common agreement with regard to terms of payments, grant of discount in sales to customers, uniform charges for packing, freight, etc.;

(b) More or less definite agreement as to prices;

(c) Price agreement with punitive sanction,

bond being sometimes deposited by members as security;

(d) Agreement on volume of production;

(e) Distribution of orders among members along territorial or other market lines;

(b) Agreement as to common purchase of material.

(The Pool and Kartell are dynamic in their constitution and their operation. The less free scope and independence of business management a Kartell agreement leaves its members, the more perfect it will be and the more it will assert its economic tendency toward: monopoly, regulation of production, greater guaranty for steady employment of its laborers, better labor conditions, but also a greater dependency of the laborer in the Kartell. The Kartell has been favorable to technical progress, has cheapened products and has bettered the conditions of labor).

261. Which lines of production lend themselves favorably to Kartell control?

Such products as admit of ready standardization and as do not require much technical care, or are not easily subject to changes of fashion, taste, requirements of arts, especially: minerals, salts, timber, ores, and half finished products from these raw materials.

(The German Kartell is older than our American Trust. Germany is the classical home of the Kartell. In Germany there were before 1864 four Kartells, in 1870, 6; about 1896, 260; in 1900, 300; in 1905, at least 385 Kartells comprising 12,000 industrial plants, the chemical industry alone being represented with 100 kinds of products. The form of industrial combination of the Kartell is already widely in vogue in Italy (iron, sugar, paper, marble, cotton, sulphur, fertilizer, silk, glass); in Spain in the same industries and in chemicals, copper, salt; in Scandinavia, in timber, copper, cement, lime, granite, fertilizer, etc.; in Roumania (petrol and other branches); in Russia, coal, iron, copper, cement, sugar, matches, salt, spirits, mirrors, paper, chemic-

als, petrol, glass, rubber, asbestos, textiles; in Switzerland, silk, cotton, cement, brick, chocolate milk, vinegar, electrical supplies, watches etc.; in Portugal Bulgaria, Egypt, sugar; Japan, silk, cotton, tea, coal, matches, beer; in Turkey, Cuba, Argentina and Brazil; Chile, Mexico.—See Pesch, National Oekonomie, and Liefman, Kartelle und Trusts.)

262. What is a Ring?

A ring is a transitory, casual, purely speculative combination of undertakers, mostly merchants, for the purpose of achieving a transient monopoly, or of securing a transient monopoly price. Rings buy up the whole or the greater part of the supply, often pay high prices and consequently must demand high prices. They are a detriment to national economic interests. (A case of a "ring" with beneficent results was that of Joseph of Egypt and the Paraoh which bought up and controlled the entire crops of seven years to meet the crisis of the seven lean years.)

263. What is a group or a concern?

A group or a concern is a loose combination of undertakings which buys up such a large percentage of the stock of other undertakings as to dominate and control them (instance: a bank concern controlling a railroad.)

264. Which causes were unfavorable to the development of the Kartell in England?

The ultra-individualistic philosophy of the English world of economists, the restraints of the English law, and an insufficient protective tariff.

265. What Kartells had, despite all this, grown up in England?

As early as 1850 we find in England Kartells in coffee, printing trades, insurance, railways; and today, also in coal, iron, textils, porcelain. wall-paper, chemicals. These Kartells are loosely organized, not seldom without coercive sanction, and of short duration.

Article 2.

TRUSTS.

266. **Give a description of the Trust.**

The trust, unlike the Kartell, is not based on the principle of mutual aid in the struggle against competition, but on fusional combination of the property of the trust members. The trust's chief purpose, however, is, like the Kartell's, monopoly. The trust is a higher development and an ulterior step forward in the direction of large scale production. The Kartell does not deprive its members of all economic freedom of action. It leaves them masters in their own plants, owners and sole beneficiaries of their patents, leaves them free choice as to their workers, and as to the technical arrangement of their plants. The trust is not an agreement between independent undertakers, but it is community of management (Betriebsgemeinschaft). Technically, the plants of the trust members may continue autonomous, economically and factually they are united into collective property. They are not allied, like the members of the Kartell, but they are united under one chief leader. The trust is not a combination of undertakings by virtue of contractual agreement, like the Kartell, but it is a permanently united collective undertaking. (The Kartell has been compared with a confederacy, the trust with a federation. This comparison while valid for the Kartell, is not valid for the trust, because the trust has no "member states" like the federation—United States). In short: Kartells are combinations of the undertakings by agreement, trusts are total fusions of undertakings by collective ownership, financial unions.

267. **What kind of difference, then, obtains between the Kartell and the trust?**

Not gradual, but a specific difference; the trust

is an entirely different species from the Kartell, under the common genus of monopolistic combinations.

268. Can you give the contrasts between Kartell and trust according to Tschierschky ("Kartell und Trust," 1911)?

According to this authority on the subject the trust is founded on the ownership of stocks, the Kartell on contract; the trust is dissolved by a crisis (or by the law—the author), the Kartell by agreement; the trust affects even the technical and the financial status of its plants, the Kartell only the business **result;** the trust entirely annihilates the independence of its undertakings, the Kartell curtails it; the trust may embrace the most diverse groups of enterprises, the Kartell only homogeneous ones.

269. Give a brief definition of the trust.

The trust is a combination or fusion of a number of undertakings into one single autonomous undertaking, not by agreement, but by the establishment of collective ownership through the surrender of all or the majority of the stock to trustees, who in turn issue trust certificates in proportion to the value of the stock received from the trust members, respectively.

270. What is the Holding Company?

The holding company is a subterfuge invented after the passage of the Sherman anti-trust law; it does not abolish the identity or independence of the members of the trust, but effects a consolidation and unification of their aggregate stock and property. The economic effects of the holding company are the same as those of the trust. But the holding company does not necessarily strive for monopoly, merely for the elimination of competition.

271. What does the Sherman anti-trust law forbid?

Passed in 1890, the Sherman anti-trust law forbids any agreement or combination in trust or other form, and any conspiracy for the restraint of trade between states in the United States and with foreign states.

NOTE—The holding company, treated above is a joint stock company, which does not buy the property of the various member undertakings, but their stock, or at least a majority of their stock, so as to control these member undertakings at the general stockholders' meetings. In this manner the holding company actually acquires the total control of the member undertakings, of their technical arrangement of the plants, their production, and the sale of products. See Pesch, Nationaloekonomic. See also Bolen, Plain Facts as to the Trust and the Tariff, with regard to the immense profits of trust underwriters; also Laughlin, Chicago, Aus dem Amerikanischen Wirtschaftsleben.

CHAPTER XII.

EXCHANGE AND MEANS OF EXCHANGE.

272. What is exchange?

Exchange in the stricter sense is the technical, in the wider sense it is the economic distribution of goods; the former is effected by the means of transportation, the latter by trade.

273. What is trade?

Trade in the objective and wider sense is every form of change of ownership of goods; in the narrower and subjective sense it is the professional services of people engaged in the work of transportation and of the buying and selling of goods.

274. What is a market?

A market is the scene, or field in which objective and subjective trade takes place. In a narrower, or a concrete sense the market is the regular concurrence of buyers and sellers, and the place of buying and selling; in a wider, and an abstract sense, the market is the sum of all opportunities of sale. (All trade in the objective and in the subjective sense is a distribution of goods as to time and place and is always a speculation, that is, it involves a risk as to change of prices in different places and at different periods of the general market. Hence **Price** holds a central place and consideration in the world of exchange.)

Article 1.

PRICE.

275. What is price?

Price is the quantity of goods received in exchange for another's goods. Price is the concrete expression of the exchange value of goods and both terms are, under this aspect, synonymous and convertible.

276. What is a monopoly price?

A monopoly price is such a one as the exclusive owner of a commodity has the power to exact, owing to exclusive ownership and exclusive control of sale.

277. Which are the economic determinants of price?

Supply and demand.

278. Which factors determine demand?

(a) The intensity of demand for the price (money) on the part of the seller;

(b) The estimation the seller has of the price;

(c) The estimation the seller has of the commodity he offers for sale;

(d) The cost of production of the goods offered for sale;

(e) The possibility of sale elsewhere, that is, the competition of the buyers among themselves.

279. Which factors determine the supply?

(a) The intensity of demand for the goods on the part of the buyer;

(b) The estimation the buyer has of the goods (that is, the value-in-use of the goods for the buyer.);

(c) The purchasing power of the buyer;

(d) The opportunity of purchase elsewhere (i. e., the competition of sellers among themselves).

280. Which are the un- or non-economic factors determining price?

The non-economic factors determining or co-de-

termining price are **psychological**: fear, hope, force of imitation (in fashion and luxuries!); **moral** (the sense of equity); **social** (prestige and pride of rank which prompts to pay higher prices); **religious, custom,** and **habit.** All these forces or motives defeat the economic principle of buying at cheapest and selling at highest price.

281. State the influence of the law of cost of production on the formation of price.

For commodities that are reproductive in quantities exceeding actual demand, the price will gravitate toward the **lowest** costs of production as long as there is competition on the part of sellers. (Cost of production here includes the normal, customary profit.) For if the price achieved by the seller is above normal, i. e., if their profit from sale is beyond normal, there will result an increase of production which, in turn, will reduce price toward level of cost of production plus normal profit. Nor can the price of such commodities fall and long continue under cost of production, for when level lower than cost of production is reached, production of such commodities will decrease, the commodities will grow scarcer in the market which will result in rise of price thereof.

282. Does the cost of production under all circumstances determine the price?

No; only within the maximum limits of the valuation of the commodity by the buyer. As soon as the cost of production exceeds the highest limit of the estimation the buyer has for the commodity, the buyer will not buy, there will be no sale, except **below** the price originally fixed and demanded by the seller.

283. Does a decline in the cost of production immediately result in a fall of price?

No. But first follows an increase of production (which is equivalent to a greater supply) and then results a fall in price. (Foodstuff prices often rise immediately upon rise of cost of production.)

284. In which commodities does the price gravitate toward the highest cost of production?

In all of those commodities whose increase of production is dependent on the law of diminishing returns, that is, at least all agricultural products. For example: If in a given country or section the demand for foodstuffs cannot be supplied except on condition that all land including less fertile land be utilized, or that more labor and capital (fertilizer) be expended to achieve the desired and necessary volume of supply, then the price of the product (crops, fruit) will be determined by the highest cost that had to be incurred (in the less fertile land) in order to meet the afore assumed demand. Those farms or pieces of land whose natural fertility render an additional expenditure of labor and capital unnecessary, will, therefore, produce under more favorable economic circumstances; cost of production of the former will rise to the level of the price of the latter. The differential of profit achieved in the product from the better land is called **differential rent.** (This differential rent or differential product is often achieved also by industrial or mercantile plants and undertakings operating under more favorable economic, technical or managerial conditions.)

Article 2.

MONEY.

(Money is here treated merely as an element incident to market operations and as an expression of price in the process of an exchange of goods. A full treatise of the subject of money, credit and credit institutions is not intended in this book.)

285. **Which was the original form of exchange in the market or in private exchange?**

Barter, by which good was given for good—barter pure and simple.

286. **Which was the crudest form of money before metallic money came into vogue?**

Commodity-money, that is, certain commodities whose durability, value in use and general demand and acceptability made them convenient mediums of exchange.

287. **Mention some forms of this commodity-money (Waarengeld).**

Cattle, grains, furs, salt, slaves, pearls, shells, raw metals, fish, rice, tobacco, household utensils, cloth, linen, especially among the Slavs about 1000 A. D., cattle (pecunia from pecus: a head of cattle; capita: heads of cattle, the origin of our modern term capital and capitalism), arms, jewels, trinkets.

288. **How ancient is the use of metallic money, and did its appearance eliminate commodity money and barter?**

Metallic money, though in a crude state, is found to have been in use at the earliest stages of explored history, nor did it entirely displace barter nor commodity money. (Barter existed on a very large scale in our Colonial history, is found in many places of the United States today, much more so in Oriental countries and is in contemplation in Germany today, on a large and refined scale, to avoid inconvenience and loss to Germany's economy through the low level of the German mark in foreign exchange).

289. **By what method was the value of metallic money originally computed?**

Not by numbers (five dollars, twenty dollars, etc.,) but by weight (the English pound of sterling, the Roman as, the French livre, the Spanish peso and the German mark are terms denoting not value, but weight of precious metal.)

290. **State briefly the origin of coin money.**

Coin money developed from rough pieces of metals which were weighed; for the sake of convenience

and to save time in the market, metal was cast into definite rough forms, into bars; finally the weight of the bars was stamped upon them; and lastly a guaranty was stamped upon the bar or other form of metal declaring the fineness, i. e., degree of purity of the precious metal therein contained. This was the crude form of the coin, whose impressions originally were made by private undertakers and traders, later on by cities, and the governmental authorities.

291. What is a coin (of money)?

A coin is a piece of metal whose weight and fineness is determined and guaranteed and certified upon its face.

292. Who, in modern times, reserves for himself the exclusive right of coinage?

The sovereign, or the state (in the U. S. the Congress), "The Congress shall have power to coin money, regulate the value thereof and of foreign coin," and "to provide for the punishment of counterfeiting the securities and current coin of the U. S.," (Constitution, Art. I, Section VIII). Hence the prerogative of coinage is vested exclusively in the Congress.

293. What is the mint rate?

The mint rate is the ratio of the number of the coins to a certain unit of metal weight.

294. What is the mint par?

The mint par is the equality in the relation between the weights and fineness of pure metal in the coins of different countries. The mint par between the English pound sterling and the American dollar is £1=$4.8665.

295. What is legal tender?

Legal tender (Zwangsgeld, Kurant) is all forms of money the law compels creditors to accept.

296. What is credit?

Credit is the power to obtain goods or services by giving a promise to pay money on demand at a specified future date.

297. What is credit money?

Credit money is any form of (money) credit which possesses in a given country equal acceptability with metal money. (It is called fiduciary or representative money).

298. What is currency?

Currency is both coin and credit money.

299. What is a monetary standard?

A monetary standard is the money system prevailing in a country, or more accurately, it is the kinds of money and the laws and terms on which the money is issued. Thus we have a metallic (gold or silver), a monometallic (only gold or only silver), a bimetallic (gold and silver), and a paper standard. (In the United State we now have a gold standard).

300. Mention the kinds of money in use in the United States.

Gold, silver, nickel and copper coin; U. S. gold certificates; U. S. silver certificates; U. S. Treasury notes; greenbacks; National bank notes; Federal Reserve bank notes.

301. Which are the functions of money?

Money supplies the function of a universal medium of exchange; a universal medium of payment; a universally available measure of value; and a universal means for the conservation of values for future use.

302. How would you define money as it exists in our time?

Money is all forms of instruments of payment whose form and unit of value are determined and recognized by the state.

303. What are instruments of credit?

Instruments of credit are written or printed promises to pay money at a given or at any future date. (Promissory notes, U. S. greenbacks, bank notes are instruments of credit).

304. What is the general import of credit to national economy?

Credit in its various forms, especially through

its professional creators and agencies, the banks, increases the supply of available money (by bank deposits and check payment systems which reduce the volume of necessary means of payment), and in addition gives elasticity to the actual supply of money by the instruments of credit, bank and state notes, bills of exchange, etc. These instruments of credit make it possible to meet the seasonal demands for more money or for less money (expansion and contraction of the money supply.)

305. What is the face value of money?

That value which the impression on the coin declares or which fractional currency and "paper money" represents.

306. What is the exchange (foreign) value of money?

The value expressed in the money of another country (thus the English pound is worth four dollars and a fraction of American money.)

307. What is the (economic) exchange value of money?

Its purchasing power.

308. Which causes may change the exchange value or purchasing power of money?

Rise or fall of the cost of production of commodities, or of the cost of transportation (Panama and Suez Canals, railways and steamship navigation considerably decreased cost of transportation) and change of demand. The causes for the change of the exchange value of money may, however, be inherent in the money itself, to-wit: changes in the quantity of money in circulation or changes in the demand for money or change of the value of domestic money against the value of foreign money (German, French and Italian money as against English and American money after the war.)

309. What is the quantity theory of money?

The quantity theory of money, propounded especially by the English economists, assumes that prices are always a true expression or index of the quantity of money in circulation and of the volume of exchange of commodities to be effected. The relation

of the volume of money to the volume of exchangeable commodities will determine the price of the latter. When the volume of money is great and the volume of commodities is small prices will be high, and vice versa, more money means higher prices, less money lower prices.

310. Is the quantity theory correct?

Not absolutely so. The theory entirely disregards the fact that the extensive and elaborate system of money-saving credit, and the methods of payment without money, is capable of inflating the shrinkage of money or of contracting it (by a reduction of credit). The quantity theory may operate locally and slowly, but its operation over a large field or internationally can be successfully met by expansion of credit.

311. State some consequences of a decline of the value of money.

Decline of the value of money, caused either by an increase of production of the precious metals or by an extension of credit, results in the rise of prices and increase of production, increase of capital, rise of wages, increase of consumption. Unfavorable results however are: Losses to those who draw fixed salaries (with diminished purchasing power.)

312. State the results of a rise in the value of money.

They are contrary to the former, to-wit: Prices fall; formation of new capital is difficult; the creditors gain, the debtors lose; credit is contracted, production diminished; consumption increases only for those who draw fixed salaries, etc.

313. State Gresham's law.

Sir Thomas Gresham English banker, merchant and statesman in the early reign of Elizabeth declared and demonstrated the principle that bad (depreciated) money drives out good money, that is, when depreciated and full-value money are in concurrent circulation, the good money will be withdrawn from circulation, hoarded or exported for foreign purchases while the (legal tender) bad money remains at home and in circulation. This holds true of good

and bad metallic money, and of metallic money as against paper money.

314. What, then, is the price of commodities?

The price of commodities is their exchange value expressed in terms of money.

Article 3.

BALANCE OF TRADE — INTERNATIONAL PAYMENTS.

315. What is the balance of trade?

The balance of trade is the relation of the total sum of imports into and exports of goods from a country. When imports exceed exports the balance is called unfavorable to the country, and the balance is a passive one; if exports exceed imports, the balance is called favorable and active.

316. Does the balance of trade determine the status of a nation as a debtor or a creditor to foreign nations?

No, the status is determined by the balance of payment, which includes not only imports and exports of commodities, but imports and exports of moneys ,the rendering of services (England for many years was creditor for many nations combined by virtue of its ship-carrying trade, as a freight agent, to the extent of $500,000,000 annually); the balance of payment includes also investments made by one country in another country, making the investing country the creditor to the other country to the total extent of the value of coupons, dividends, or profits. (Germany had invested in the Americas as early as 1900 more than one billion dollars; England held hundreds of millions of American securities until the war, when many of them were disposed of in the U. S., and almost every country is creditor or debtor to some other country by virtue of invest-

ments of capital made in the foreign country); payments incident to travel of foreign tourists (Switzerland's and Italy's great foreign source of income); other extraordinary obligations of country to country, such as transfer of inheritance from country to country, pensions, war indemnities, subsidies. All these assets and liabilities comprise the balance of payment. The balance of trade may be unfavorable, while the balance of payment is favorable. England had for many years an unfavorable balance of trade, while Russia's was favorable; yet England was and continues a creditor nation, while Russia was and is a debtor nation, because their balances of payment were favorable and unfavorable, respectively. The exports of commodities are visible and affect the balance of trade, all the other factors mentioned hereabove are "invisible exports" and with the exports of goods affect the balance of payment—which is the decisive thing in economic international relations.

NOTE—Foreign capital invested in U. S. amounts to about $6,000,000,000, indebting the U. S. to the investing countries to the amount of $300,000,000 annually in interest or dividends. American tourists' traveling expenses in foreign countries before the War were about $175,00,000 annually.

317. **Are great investments of one country in another an unalloyed advantage to the investing country?**

Not always, for these investments may retard industrial and other development at home while they may often help rear a strong competition against the investing country.

318. **How are international payments made?**

They are made by the employment of instruments of credit, mostly bills of exchange, and very rarely by money, the mere difference between imports and exports, if at all, being liquidated in form of money payment.

319. **What is a bill of exchange?**

A bill of exchange is a written order or request from one house or person to another house or person to pay a specified sum of money to a third house or person named in the request and to charge said sum of money to the account of the drawer. The bill of

exchange is either for inland payment ("inland bill") or for foreign payment ("foreign bill"). However, instead of ordering another person to pay, the drawer of the bill may promise to pay himself. The person issuing or "drawing" the bill is the drawer; the person requested to pay the sum specified is the drawee; the person to whom payment is to be made is the payee. The bill of exchange is generally negotiable (transferable from one endorser to the other) and to be such, must be made payable to "order or to bearer" and every bill must state that payment is to be made "for value received." (Example: New York, December 1, 1919. $10,000. On February 1, 1920 pay on this bill to the order of Mr. John Smith, London, or bearer, the sum of $10,000. Value received. To John Jones, Liverpool. (Signed) B. Franklin."—In this bill Franklin is drawer, Jones is drawee and Smith is payee. If John Smith in London, happens to be, in turn, a debtor to H. Mendoza, a merchant in Brazil, he may endorse the bill in favor of his Brazilian creditor, who, again, may endorse it to the original drawer B. Franklin, in New York, to whom he is indebted to the same amount, while B. Franklin may endorse it lastly in favor of a creditor of his in New York City, where actual payment of the sum may be made, or the bill of exchange started anew on an international tour until date of actual payment falls due, and the last endorser must tender actual payment. Thus, three international debts (in London, Brazil and New York) have been paid by means of a mere legal document, with no risk or expense of actual money shipment. The indorsements on the bill of exchange may be very numerous, and if the available space on the bill of exchange is filled a slip of paper may be securely attached and endorsements continued until further transfers are automatically excluded by maturity of the bill (frequently three months).

The bill of exchange, at one time much in vogue in home trade in England, is now more and more displaced by the check, note and postal money order, but for international payments has steadily grown in importance. The bill of exchange, or simply "ex-

change" is for international payments what the check is for inland discharge of obligations.

[The procedure in international payment by exchange is usually the following: A Hamburg firm which has bought cotton from New Orleans and owes the merchant of that city 100,000 marks, does not pay his debt in money at New Orleans, but the New Orleans exporter draws a bill of exchange on the Hamburg merchant ordering the latter to pay the debt to a London bank with which the New Orleans merchant does business, or to a New Orleans bank. In issuing his bill of exchange the New Orleans merchant presents the same first to the New Orleans bank which pays the New Orleans merchant the debt and thus acquires the possession of the exchange and the claim it contains against the Hamburg merchant. The New Orleans bank then endorses the bill making it payable to a London bank with which the New Orleans bank has connections. The London bank, by accepting the bill and making it a claim in its own favor, makes thereby the bill an international instrument of payment. The bank in London may send the bill to Boston and sell its claim to a Boston banker, who in turn will sell it to an American merchant who is debtor to a merchant in Liverpool. The merchant in Liverpool will present it to the London bank which will pay it, if matured, in full, or if not yet matured with a discount in its favor. Meanwhile, at least at maturity of the exchange, the Hamburg firm has made payment to the London bank by buying a similar exchange (a claim for payment) against a (buyer) debtor in London. This buyer debtor in London will present the bill to the bank, or to some bank in London or England, pay it to the bank and the Clearing House in London will cancel the indebtedness of the Hamburg merchant now liquidated by the payment of another bill of credit on its books against the claim he had against his debtor in London.]

320. What is discount on exchange?

Discount on exchange is the sum of money a bank subtracts (as interest in advance) from the purchase price it pays for a bill of exchange, the discount being determined by the length of time intervening between purchase and maturity of the exchange.

321. **Explain what is meant by "gold points" in the mechanism of exchange, that is, of international payments.**

An exchange in the United States on England means a claim an American creditor has against an English debtor. If United States claims against England were always equally offset by English claims against the United States they could be mutually cancelled and the price of exchange bills would always be at par (one £ sterling equal to $4.86). But when

more debts are owing to England than are owing from England to the United States there will be a greater demand in New York for exchange on England than vice versa. But since exchange (in the United States for instance) represents foreign money in our country payable to a foreign country (England in our example), it (the exchange) is a commodity, its price is subject to demand. Since it has been assumed that more payments are due to England than to the United States the exchange in the United States payable in England will be in great demand and the banks will demand more than par that is they will sell a pound of sterling over $4.86. The American debtors are willing to pay over par to liquidate their debts in England. But they will not pay much over par at least not more per pound than it would cost to ship gold to England instead of paying with exchange. As soon as the excess of exchange over par per £ sterling would be more than the expense of shipping (and insuring) gold per £ sterling, the American debtors will not buy the expensive exchange bills, but will pay by sending gold to England. When such a rate in exchange has been reached that American debtors prefer to send gold, the "gold point" against the United States has been reached. Exchange will not long remain at the gold point nor rise above it, for that would result in an exportation of gold to England which we do not desire. Nor can exchange fall lower and in excess of the cost it would entail to send money to England. For if it would fall so low then again it would become necessary to send gold rather (plus the expense of shipping and insuring) than to sell the bills of exchange at a loss, to American debtors who wish to pay with them in England. Hence, the rate of exchange will always oscillate between the high and low gold points. Nor will England sell exchange payable in the United States at a rate lower than it would enable a debtor to send gold to the United States, for then the "gold point" would be against England and would result in an export of that metal to the United States which is undesirable for England.

CHAPTER XII.

FOREIGN TRADE AND TARIFF POLICIES

Article 1.

PATENTS, COPYRIGHTS, TRADEMARKS, TARIFFS.

322. Aside from other effects of a Monopoly, how does a Monopoly react on competition?

It checks or entirely excludes competition.

323. State classes of competition.

Personal abilities (of artists, inventors, singers, the Mayo Brothers as surgeons of monopoly character and many others); legal monopolies, established or granted by sovereigns or governments; copyrights and patents (the telephone monopoly in the United States affords an instance of powerful monopolies built on patent rights); government monopolies (the postal service in most countries and the telephone, telegraph and railway services and other state monopolies in other countries); natural monopolies (when not confiscated or reserved by the state) as: coal, oil, ore lands, etc.; also natural monopolies of scenery attracting tourists and their money and forming the basis for an extensive and wealth-getting industry of hotels, transportation or health service

(the magnificence of Niagara Falls, Yellowstone Park, California, Switzerland and its Alps. the Black Forest in Germany, the Rhine, the Hudson, Hot Springs, Carlsbad, Baden-Baden, Mackinac. Mich.. etc.); natural monopolies of positions for great industries (the steel industries in Pennsylvania and Ohio on account of closeness of anthracite and ores—via the Great Lakes; the cattle and packing industries in Mississippi Valley — the great corn and fodder district; the great flouring mills in Minnesota — the great wheat district or point of transit of western crops; paper industry in Maine — proximity of lumber, also in New York, New Hampshire, Wisconsin, and furniture in Michigan); natural site for great centers of traffic through water-ways (Pittsburgh and St. Louis at the junction of great rivers; Duluth, Chicago. Sault St. Marie. Toledo, Cleveland, Buffalo — the latter city perhaps the greatest inland harbor in the world); finally, capitalistic monopolies as described in the case of the Kartell, Ring, Trust, etc.

324. Which three legal institutions act in the form of monopoly or at least considerably check competition?

Patents, copyrights, trademarks and tariffs.

325. What is a patent?

A patent is the legal grant of a right issued to an inventor securing to him exclusively the monopoly of the production, or use, or sale of his invention, as the case may be. (Patents in the United States run for a period of seventeen years, and are granted for all new machines, improvements on them or on old machines, on improvements on devices already patented, on all new processes, formulas, compositions, mixtures, etc.

326. What is a copyright?

A copyright is a legal grant issued to an author of a book, an article, a musical composition, a drawing, sketch, etc., insuring to him the exclusive control or sale, or reproduction of his work, and is granted for a term of 28 years. renewable for the same length of time, in the United States.

327. Who grants copyrights and patents?

The United States Congress, in virtue of Constitution. Article I. Section VIII, Clause 8. giving Congress the power: "To promote the progress of science and useful arts, by securing, for limited times, to authors and inventors, the exclusive right to their respective writings and discoveries."

328. In what does the trademark differ from the copyright and patent?

In that it does not prohibit the imitation or reproduction of an article bearing a particular trademark, but in prohibiting the illegal use and exploitation of the reputation of a concern.

329. What is a trademark?

A trademark is a distinctive mark, or name, or device affixed by a manufacturer or trader to his goods, prohibiting other manufacturers or traders from using the same device or name, or mark. Trade marks are recognized by law.

330. What is a tariff?

A tariff is a tax levied upon commodities passing over the borders of two states. It may be an export tax (as was usually levied in the Mercantile era, from 1500 - 1750. on rawstuffs going out of the country), or an import duty, or a duty on goods merely in transit through a third country from and to other countries.

331. What is a tariff for revenue only?

It is a tariff levied merely for the purpose of providing funds for the government, with no ulterior economic purpose (for instance: tariffs on coffee. spices and things not grown or produced in a country).

332. What are specific and what are "ad valorem" tariffs?

Specific tariffs are such as are levied on imports per unit, or per weight, or bulk (ton of coal, yard of cloth, one or two locomotives); "ad valorem" tariffs are based on the value of imported articles.

333. Which tariff is the more perfect but what are its handicaps?

The "ad valorem" tariff is the better tariff, but its fixing is difficult for the reason that the fair value is often very difficult of determination for the purpose of a fair and equitable levying of the tax (it is difficult to decide which value should be made the basis of the tariff: the value or cost of production, the sale value at place of exportation, or the selling price at place of importation, wholesale or retail price? Very often the wholesale price in the country of the origin of the goods is taken as a basis).

334. What is a tariff system?

A tariff system is such an arrangement of tariffs as is devised and is consistently observed with a view to affording relief and protection to the home agricultural, industrial, trade, and labor demands in an equitable and rational proportion.

335. What is an autonomous (independent) tariff?

It is a tariff which has been fixed exclusively by the home government without regard to the demands or requests of foreign governments; if such regard is taken, however, the tariff is a "conventional" tariff.

336. How do conventional, that is, tariffs based on convention, originate?

Through agreements between states, the agreements embodying as closely as possible the elements of trade advantage sought by the contracting states. The tariff agreements either include reduction of the tariff positions or at least a pledge not to advance them. In either case of these agreements the tariff rates are fixed and stable between the contracting states.

337. What are maximum and minimum tariffs?

The former is a tariff in which the tariff making state fixes limits above which it agrees not to go; a policy resorted to when the calculation of the tariff in advance appears difficult or hazardous. The minimum tariff is the tariff which it is the intention of its author state to maintain at all hazards.

338. **What are differential tariffs?**

Differential tariffs are tariff discriminations in favor of some countries against other countries. Differential tariffs are sometimes granted by colonies to their mother country, by neighbor state to neighbor state, or to home ships as against foreign ships f. i., if certain imports brought to New York in American ships were granted a reduction of the tariff rates as against imports carried to New York in foreign ships. Differential tariffs are often used as a retaliatory discipline against states discriminating against another state. When established in such spirit and for such disciplinary purpose the differential tariff is called a retaliatory tariff. (Differential tariffs were granted by Austria-Hungary in favor of the port of Fiume and Triest, and against Hamburg and Bremen whch were competing for trade with Fiume.)

Article 2.

EFFECTS AND FUNCTION OF THE TARIFF.

COMMERCIAL TREATIES, NAVIGATION ACTS.

339. **Does a tariff raise the price of an imported dutiable article to the extent of the tariff itself?**

Not necessarily. The purpose of a tariff, of course, is to raise the price of imports and thereby to render them less marketable and less powerful in their competition with home products. The higher the tariff the greater the increase of price of the imported goods.

340. **Does the tariff protect the home products equally? For instance: is "agriculture" or the "steel industry" in all its plants and units equally affected by the protective tariff?**

By no means. The "steel industry," the "tex-

tile" or "sugar industries" are mere abstractions which cannot be protected. But what is protected are the individual plants of these industries, and the individual farming enterprises. Yet all individual undertakings do not produce under equally favorable conditions, some bring a differential rent on account of peculiar fertility of the soil, or on account of more perfect machinery, or a more favorable market location, while others make only a normal profit, while others are merely maintaining themselves in existence. According to the relative economic advantages and disadvantages under which the individual plants may operate and produce their benefit from a protective tariff will vary in rate and volume. For some plants and entire industries the mere cost of transportation of the goods of a transatlantic or Mexican competition affords a protection equal to the protection by a tariff, while other plants operated near the place of landing of the foreign goods are not so favored. (For instance, Scandinavian timber to be used on the U. S. Atlantic coast can compete easier with timber from Oregon and Washington than with timber from Maine or any of the Eastern states, because the transportation cost of Maine timber to the Atlantic coast is less than the transportation cost of Western timber. But if Scandinavian timber is destined to be used on the Pacific coast it will be a stronger competitor with Maine timber than with Western timber. Thus, Russian grain sold in Germany and France had a natural protection against competition from American grain on account of the greater proximity of Ukrainian wheat fields to the grain markets of central and western Europe. But as soon as the homestead laws passed during and after the Civil War opened the great praries of the Mississippi Valley, and railroads and steamships reduced the cost of transportation, the grain competition of the American farmer with South Russia and German grain was keenly felt and Germany was compelled to establish grain tariffs to prevent the ruin of the German farmers and the depreciation of their property. The homestead laws, the opening of the Mississippi Valley, American farm

machinery and the cheap and fast steamship freightage economically placed the grain fields of Kansas, Nebraska, Iowa, Illinois, etc., on the very banks of the Rhine and made them strong competitors.) Hence, the tariff does not protect all plants of a protected industry with equal force. The scarcity of ships for the transportation of North and South American grain and other raw stuffs produced in Europe will operate automatically as a protective tariff in favor of the countries competing with the Americans for some time to come.

341. How should a tariff be constructed in order to function as a reasonable protection?

It should be high enough to protect and keep alive such industries and plants as appears desirable to maintain. This is achieved when the tariff raises the price of the product to such a limit as will suffice to pay the cost of production of the home plants. A sound tariff policy cannot intend the protection of plants struggling under every kind of adverse conditions, because this would be uneconomical for the consumers and would, at least for a time, insure excessive profits to the best situated plants at the sacrifice of the consumer's interests. (According to Professor Laughlin, Chicago University, writing in 1906 "Aus dem Americanischen Wirtschaftsleben": The American steel industry already then needed no protection any more; many American industries, still protected, need protection no more, and even those needful of protection would be amply protected by a tariff 50 or only 33 per cent of that prevailing.

342. What is "dumping?"

Dumping is the sale of home products at a cheaper price in foreign markets than they achieve in the home markets, and it is usually practiced by powerful large scale undertakings—mostly the trusts —in an era of overproduction.

343. Is dumping morally reprehensible?

Hardly, because it often merely denotes the fact that home conditions of production can compete with foreign conditions of production. Some times, of

course, it is an indication of an excessive tariff protection and of an undue exploitation of the home consumer. Its economical effects at home are mostly beneficial in that it keeps plants open and precludes suspension of employment of the laborers. (In the summer of 1900 the American prices of lead, wire, barbed wire, nails, soda, Portland cement were 20-25% cheaper in England than in the United States. The German wire nail Kartell in 1900 exported 19,000 tons of its product at a loss of $11.00 per ton, but kept its men employed.)

344. What is a commercial treaty?

A commercial treaty is a convention or contract between states in which the contracting parties mutually establish rules and mutually binding obligations concerning trade, exchange, travel, navigation, and industrial pursuits of their nationals residing in the foreign states.

345. What is the general purpose of commercial treaties?

To regulate the legal standing, rights and duties of their nationals residing in the other state's territory and they do not embrace only the economic activities of their nationals, but:

(a) Their rights in the foreign country with regard to residence, ownership of mobile and immobile property, pursuit of gainful occupations, taxes, and standing in the courts;

(b) Import and export duties and other taxes on articles of trade passing between the contracting states;

(c) Protection of their nationals, copyrights, patents, trademarks;

(d) Terms on which navigation or other intercourse of trade is regulated;

(e) Veterinary, hygienic and sometimes industrial insurance regulations. (Italian laborers for instance, enjoying under contractual agreement certain rights of state insurance in Germany, and German laborers holding similar privilege in Italy.)

246. What is the "most favored nation" clause in commercial treaties?

The "most favored nation" clause is, in general, an agreement, almost universally in vogue since the last seventy years, by which the contracting states pledge to each other the right not to be treated less favorably in tariff matters than any other state, not a party to the tariff treaty. This clause operated automatically in the sense that, as soon as one of the contracting states accords a trade advantage to a third state, then the other contracting state must at once be given the same privilege. The field of operation of the clause is sometimes limited to certain privileges only. Some states make the operation of the clause dependent on certain conditions. Thus, the United States grants the privilege stipulated in the clause only when a third state has received from the United States a trade privilege gratis, without a compensation to the United States. But if the United States in trade agreement with England, for instance, grants a special trade advantage to Japan at a certain cost to the latter country, or on account of some advantage granted by Japan to the United States, then the United States will grant the same advantage also to England, if England offers a similar compensation to the United States as did Japan.

347. By what term is this mutual trade treatment between states known?

By the term of "reciprocity."

348. What has been the attitude of the United States to the "most favored nation" clause?

The United States has been chary of extending the privilege of this clause unmodified to foreign nations. Our country on principle refuses to accord an absolute "most favored nation" concession to any state, while European nations granted the clause in its absolute form to each other until the great war. The United States and Argentine, also, were granted the "most favored nation" clause by European states, much to the commercial disadvantage to Europe.

349. Which two great theories in trade politics have ever occupied the minds of economists and of statesmen?

The theory of free trade and the theory of the protective tariff.

350. **What is "free trade" in its broad sense?**

It is a politics of commercial intercourse at home and with foreign nations unhampered by any governmental restrictions.

351. **By which schools and when was free trade chiefly represented and advocated?**

By the Physiocrats in the 18th and by Adam Smith and his followers and the Manchester people and their adherents, from 1776 to 1836 (at which latter date the free trade movement began to be especially fostered by anti-corn law agitators Grote, Roebuck, Hume; in 1838 by Cobden, John Bright and others, in Manchester, England). Free trade movements are discernible in almost every European country as a consequence of the influence of English and French economic writers, political agitators, and of the thriving condition of the English national economy which since many decades is one largely, though by no means exclusively, of free trade.

352. **Which economic system was one emphatically of tariff protection?**

The mercantile system, prevailing from 1500 to 1750, which practically dominated the entire economic politics of Spain, Portugal, France, the Netherlands, Prussia, Austria, Russia, the Italian city states and principally England.

353. **What is the principle inherent in the mercantile and in every thorough protective tariff system?**

The recognition of the politics of foreign trade as a part of the national state politics, that is, the interests of foreign trade are considered, together with the home productive interests, an essential element of the state interests and national and political power.

354. **Which are some of the most important features or measures of this mercantilistic and protective policy which, essentially, perseveres to this day?**

(a) Navigation and trade are nationalized, that is, while these interests remain in the hands of private undertakers (and not in the hands of the state) they are peculiarly favored and foreign shipping and

trade are discriminated against; this policy was most rigidly adhered to in commercial intercourse with the colonies of European states;

(b) Trade and its direction were rigidly determined by the state, and a great influence was thereby exerted in the development of productions in the home country;

(c) Prohibitive, or at least restrictive tariffs are raised up against foreign imports and premiums, subventions and other aids are extended to the exporting home industries, and to shipping companies (England has for a long time maintained a system of direct financial assistance to its shipbuilding industry and the new German Empire has decided to adopt a similar course);

(d) By navigation acts.

355. Which country has more thoroughly than any other stimulated foreign trade and sought the exclusion from it of competing nations, by means of navigation acts?

England.

356. What do you know of English navigation acts.

England has passed fifteen of such acts between 1381-1650, the one passed in 1651 by Cromwell, then autocrat (protector) of Great Britain, being the most noteworthy, the most ruthless and the most decisive for the establishment of British supremacy on the seas.

357. Which were the chief provisions of this navigation act of Cromwell's?

(a) No ship may be admitted to coastwise trade in English waters unless it be exclusively English-owned, commanded, and three-fourths manned by English sailors;

(b) European goods may, as a rule, be carried to England only in ships belonging to the country originating the goods (this excluded foreign ships as freight carriers for non-English states, prevented Englishmen from importing European products to England and prevented European non-English states

from getting the carrying trade of the extensive British colonies);

(c) European goods must be carried as provided under a);

(d) Import and export to and from English colonies is restricted to English ships and no non-Englishman may settle as a merchant in English colonies. This navigation act was modified first in 1833 and was repealed in 1849.

358. **What prompted Cromwell to adopt such a rigorous act?**

His purpose was to exclude continental Europe from English trade and English colonies, to repress and to annihilate the exceedingly flourishing trade of the Netherlands and the (declining) trade of Spain and the (rising) trade and shipping of France.

359. **Which were the immediate results of this drastic navigation act?**

Results common to most strict protective measure (in the start) to-wit: An increase of cost of English shipbuilding and an increase of shipbuilding itself in England; increase of cost of freight, of sailors' wages, of European goods imported into English colonies, impairment of English trade with Scandinavia, Russia, Greenland; retaliatory measures from France and Sweden, and a number of trade and naval wars, especially those with Holland in 1651-1655 and 1672-1674.

360. **What was the relative trade position of England and Holland in 1651?**

Holland was the leading naval and trading state in Europe, the greatest colonial power, owning and operating ships in all known seas and in all coast waters and harbors of Europe; 500 Dutch ships were engaged in the Dutch-English trade against only 50 English ships; and of 20,000 trading vessels then existing about 16,000 were Dutch property (estimate of French statesman Colbert).

361. **How did the excessive protective (Mercantile and navigation) policy of England affect her North American colonies?**

The best and richest portion of them declared their independence and established themselves as the United States of North America. (See grievances of the Thirteen colonies against English trade measures in Declaration of Independence).

362. What do you know of piracy as a practice connected with nationalistic trade protection and expansion in the mercantile (protectionist) era?

Piracy was not a mere practice, it was an institution sanctioned and abetted by all western states of Europe and by the Italian city states. Merchants and states sought to recover their trade losses by preying upon the peaceful trade ships of other nations, even in the deepest peace. Courtiers and the nobility and, in England, "gentlemen adventurers" fitted out and manned pirate vessels for the purpose of easy gain. In the middle of the 16th century the coast waters of the British Isles were continually patrolled by pirate ships. Sir Thomas Chaloner, one of the judges of Charles I, 1648, and a member of the Parliament, declared that in the summer of 1563 there were in the English channel more than 400 pirates who took away from 600-700 French trading ships in a few months. In the days of Queen Mary and later, in the days of the Stuarts, many nobles of high rank were engaged in piracy. It was common custom not to respect foreign property on the high seas; English depredations upon Spanish fleets in the midst of peace finally exasperated Spain to the point of fitting out the Armada whose expedition to English waters was not prompted by religious motives for the repression of Protestantism but by motives of self-protection. English wars with foreign nations were peculiarly favored by the Whigs, the party which represented the money interests of the cities, the manufacturers and shipbuilders, because these wars afforded welcome and enriching opportunities for piracy as a by-product of naval warfare. (see Schmoller, Grundriss, Sombart, Der Bourgeois).

363. What do you know of the policy of protectionism by tariff in the middle ages?

The protective policy of European states afore

described is a consistent application of protective principles as embodied in the trade regulations governing the commercial intercourse of cities with the country and of city and city in the middle ages. The chief purpose of this mediaeval protectionism was to monopolize trade in favor of the city merchants and the citizens. The factors entrusted with this policy and its principal beneficiaries were the gilds.

364. **Has the policy of free trade as proposed principally by Adam Smith in 1776 and then supported by others ever been fully realized in England?**

No. England while more addicted to free trade than any other state has never entirely abandoned the principle and practice of protection. Even the odious corn laws (protecting the meagre and languishing agricultural interests of the absentee landlords of Great Britain to the intense suffering of the poorer classes, were repealed only after a severe struggle of the free traders, in 1842.

Article 3.

LIST'S AND HAMILTON'S TARIFF SYSTEM.

THE TARIFF AND SECESSION — TARIFFS IN THE UNITED STATES.

365. **What is the principle of protective tariff for industrial education?**

It is the principle or demand of a tariff to be maintained so long as the industries and the general economic powers and capacities of a nation shall not yet have developed to such maturity as will enable them to meet foreign competitors with reasonable

prospects of success. The chief and the most genial economist favoring this principle was Frederick List of Germany (1789-1846), who during a stay of several years in the United States, was beneficially influenced by Alexander Hamilton, first treasurer of the United States, and, in turn influenced American business men in favor of protection and first evolved his theory of protection as an educational measure for the nation, for the benefit of the United States. According to the theory of List it is more beneficial to a nation not to buy cheaper products from foreign nations and to neglect its own industrial development; but on the contrary, that a protective tariff should be established and maintained until the natural and racial, national resources and all productive powers of the nation have been brought to full development. The higher cost of living and the numerous sacrifices imposed by such a protective policy of industrial education (List calls his tariff "Erziehungszoll Zur Nationalen Selbstandigkeit") will bear their rich reward in the economic strength, self-reliance and competitive power so acquired. List's tariff is quite different from the narrow-minded policy of mercantilistic selfishness and is based on the broad principle of the national-economic community of interests. List's writings on American economic problems of development, including a protective policy, were loudly welcomed by the American business world.

366. **State the views of Alexander Hamilton on the tariff problem of the early United States?**

Alexander Hamilton, the most ardent advocate of the Constitution of the United States before and after its ratification, in 1787-1790, and one of the really great American statesmen, recognized the necessity of industrial national development alongside with our agricultural interest, advocated export premiums, the development of all resources and powers of the nation, the more intimate connection of the South and North in trade and transportation. Hamilton's ideas, considerably modified, of course, in the direction of a strict policy of protectionism, acquired

dominant influence on the subsequent tariff policies of our country. In his official report to the house, on the subject of American manufactures, May 5, 1791, Hamilton refuted the free trade doctrine and strenuously advocated protection in the sense of List.

367. **State in brief outline the tragic part the tariff problem played toward the movement of Secession in the United States.**

The South, as we historically know it, from the beginning of our constitutional history devoted its lands, resources, energies and talents to a one-sided and ill-advised agricultural policy. Aside from the cultivation of rice in the marshes, of a little sugar, and of tobacco the South more and more drifted into cotton cultivation, which was as ruinous as it was narrow economically, retarding, if not repressing entirely the development of mines, railways, roads, the industries, and making the South almost entirely dependent on the North and on England for every article of use. "The North is the mecca of our merchants, and to it they must and do make two pilgrimages per annum—one in the spring and one in the fall. All our commercial, mechanical, manufactural, and literary supplies come from there." Then the writer Hinton Rowan Helper, in his "The Impending Crisis of the South," New York, 1857—a book as important in that day from the abolitionist viewpoint as Unce Tom's Cabin—enumerates a lengthy scale of articles practically the entire sum of human needs, which the South was compelled to import from the North or England. The South had no industry and no manufactures and, consequently, was not interested in industrial protection, but was keenly interested in free trade. Protection meant for the South a burden from which it derived no profit. The North was keenly interested in the tariff owing to its fast developing and various industries and trade. The tariff policies of Hamilton and of successive administrations were received with a spirit of resentment in the South. This resentment was peculiarly marked in 1816 when congress passed a tariff law to meet the danger arising out of a ruinous influx of English products into the country. The South's complaint was drastically phrased that "the Northern factories were being fattened with the life-blood of the South." The political and economic cleavage evidenced in the tariff debates in congress was shown with increasing distinctness to be parallel with the boundary lines of North and South. When, in 1828, chiefly through the efforts of Henry Clay and Daniel Webster, the Northern trading interests had secured a further degree of protection in a new tariff law, the legislature of South Carolina, amid the applause of the people, under the leadership of Calhoun, and in imitation of the precedents established by Kentucky and Virginia in 1798 and 1799, respectively and with an appeal to the state sovereignty doctrine, declared the federal tariff law (or any other future federal measure)

null and void when, and because, the measure were inimical to the interests of the State of South Carolina. This act of opposition on the part of South Carolina, called the "Nullification Act" was moreover declared by her to be the only course possible for her as a sovereign state and that if the majority (the United States) persisted in its oppression of the minority (a single state), the minority had the right to secede from the Union. The Nullification Act, passed by a state convention Nov. 24, 1832, at Charleston, was entitled: "An ordinance to nullify certain acts of the congress of the United States, purporting to be laws laying duties and imposts in the importation of foreign commodities." The nullification doctrine met with eager acceptance in the South and contributed considerably to Southern discontent which finally burst forth in the Rebellion of 1860 when, again, South Carolina took the lead. Clay averted a crisis by a compromise tariff in 1833. But the subsequent development of the North and South so heterogeneous in essential regards, especially that of industry and immigration and free labor, widened the reft between the two sections until it became irreparable except by war. The election of Lincoln on an abolitionist and tariff law platform alarmed and incensed the South to the degree of secession.

368. Who demonstrated the harmfulness of the one-sided Southern economy, not based on the equal and harmonious development of the national resources, as Hamilton and List demanded?

Hinton Rowan Helper, a Southerner, in his book The Impending Crisis of the South, published in New York in 1857 and having reached already in 1860 the 140th thousand, being with its rich statistical material and voluminous other matter a conclusive refutation of the slave and cotton economy of the South and for its stirring effect upon both North and South being, in its importance as a factor of political and social propaganda, second only to Uncle Tom's Cabin. The publication of the book at its first appearance having been made the subject of Congressional opposition or endorsement—as the party lines suggested—and a resolution even being introduced by Rep. Clark from Missouri, declaring any person "who has indorsed and recommended the book . . . ." unfit "to be speaker of the House." The candidate for the speakership, Mr. John Sherman, Ohio, after a contest of eight weeks withdrew his name as candidate. The book was an event in the great political, social and economic controversies of the decade 1850-

1860, created the keenest embarassment of the planter aristocracy of the South, whose radically mistaken economic theory it demolished with merciless blows and irrefutable logic. The book, naturally was an eyesore to the British whose interests were identical with those of the Southern planters.

369. **What are the merits of tariff protection?**

Tariff protection appears the only logical course possible for any nation striving for economic and, in a measure, political independence. The tariff principle propounded with such conclusiveness by Frederick List and adopted by Alexander Hamilton for our own country, as the principle of industrial and generally economic education, is sound and will always retain its value. This principle of protecting and rearing to maturity and self-reliance the nascent industries and all the resources of a country is a necessary complement to the development of civilization and culture of a nation, and is, for most industries, only a temporary expedient. The principle of protection is supplemented by the other principle, "from protection to free trade."

370. **Is this latter principle "from protection to free trade" universally applicable from a wise economic viewpoint?**

No. For even when the tariff has accomplished its work it is not wise to expose to free foreign competition all industries, especially not the basic and most essential industries of a country, least of all agriculture and the great staple industries of the minerals and coal, nor those industries which absorb a great volume of capital and labor, and whose conservation is of greater lasting benefit to the country than cheap prices on foreign goods. (The disastrous consequences of undeveloped economy and one excessively dependent on foreign imports was probably never more convincingly demonstrated than in the South where "cotton was king" and ruined the country and made it helpless. It is contended by more than one authority that the South was not vanquished by superior numbers but by its own unnational and un-rational economy.)

371. **Which is one of the great evils even of a rational protective tariff?**

The uncertainty of its endurance. This uncertainty places capital invested in protected lines of production at great risks, and the risks are the greater the higher the tariff had been. Hence the unwisdom to make the tariff policies in a country a political party measure, which is at the mercy of the opposing parties as soon as they get into power. The tariff policies of any country are as universally national an affair as any policy of statesmanship, for tariffs indirectly affect the entire people. The losses impending to capital invested under tariff protection are the greater the more unfair or excessive the business interests have asserted themselves in the policies from which the tariff sprang. The success or failure of great industries, and the loss or retention of great values stabilized in non-liquid forms in protected industries are often dependent on a change of administration and, even, on the commercial or political interests of a comparatively small group of men newly in power. "Whether it actually produces corruption or not, it furnishes a powerful motive for subscription to campaign funds, and a temptation to corrupt practices. The less the average congressman understands the needs of business, the greater is the danger that his vote may be shaped by the results of improper influences, even when his own personal character is above suspicion. With legislatures as they are actually constituted and elections as they are actually managed, the danger to popular government as a whole, arising from this source, outweights the good which can be expected to result from the application of protection for the sake of diversifying industry." Prof. Hadley, Yale, "Economics." The remedies for the evils here alluded to will be found in divorcing the tariff policies of a country—especially ours—from party politics (a task, indeed, more difficult than the curbing of the trusts, considering the lobbying abuses in our politics), in shaping the tariff policies upon the advice of business experts from every branch, the chambers of commerce of the country and representatives of the great mass of in-

vestors and consumers, and in a gradual reduction or total abolition of tariffs.

372. **Does the protective tariff equally benefit capital and labor?**

First, it should be noted that the tariff benefits capital and undertakers in a very various degree, according to the more or less favorable conditions under which the various plants and undertakings produce or carry on their business. Secondly, protection is designed and is capable of benefitting both capital and labor and, especially with regard to labor, the tariff assumes the character of a restriction of immigration of foreign labor. In many of our past congressional and presidential campaigns the benefits to be derived from the tariff for the American laborer have been popularly phrased in the campaign slogan of "the full dinner pail." The fact being, however, that some of our great and most protected industries have permitted rather scant advantages to accrue to their employees from the tariff under which these industries thrived (textile and the steel industry, for instance). The measure of profit of the tariff to the laborers so protected will depend on the nature of wage and labor laws (minimum wage, prohibition of child and women labor), on the relative strength of employers' and labor organizations, the standard of living adopted and demanded by the laborers, the demand for the protected commodities, and the more or less favorable conditions under which the single protected undertakings operate. The fact cannot be denied that the benefits flowing from the tariff in our country have far more, relatively and absolutely, been on the side of capital rather than of labor.

NOTE—The advantages afforded by, or expected from, a system of protective tariffs, no matter how necessary or economically perfect that system may be in the concrete, are not unalloyed with economic disadvantages. No tariff can be constructed, or is even conceivable which would not in some way react unfavorably upon some interests in the protected country, even when these interests are themselves protected. For instance textile industries when simultaneously protected with steel industries will suffer in consequence of more costly steel and machinery; even particular textile plants, more favorably situated than other textile plants in the same country will suffer through protection in that protection will cause more capital to go to other plants less favorably situated but now strengthened through

protection; protection for lumber, furniture and mining industries will, relatively, bring more benefits to lumber than to furniture and mining, because, on the one hand furniture industries will have to pay higher prices for lumber and coal and steel than if there had been no protection and mining, also, will have to pay higher prices for lumber than without protection. Industries for which the natural conditions in a country are utterly lacking or too scanty should, of course, not be protected—as for instance, if a country entirely without coal endeavored to protect its steel industry; or a country affording only slight opportunities for growing cotton attempted a protection of cotton textiles. The decision of a country for protection or free trade cannot and should not be rendered on the basis of purely abstract theories but on the basis of actual conditions obtaining in a country. Doubtless, free trade is being favored considerably by the perfect means of communication and transportation of our time, and its adoption would eliminate one of the most troublesome and pernicious elements of rotten party politics, of lobbying, of bribery and legislative partiality from many a state. Nor, even, with studious partiality eliminated is a tariff system, that would be objectively beneficial to all concerned, possible. Again, even where free trade had been in existence, a protective tariff would become indispensable in the event of the sudden rise of a strong foreign competition which would imperil the investments and the social welfare of a considerable portion of the people or the existence of important industries. Nor does protection appear unreasonable as a reward for extensive burdens borne by industries in the form of costly safety appliances and laborers' welfare work, or burdens of industrial insurance shouldered by the industries of one country and not at all, or not equally so, taxing their competitors in other countries. It should furthermore be borne in mind that the tariff, be it ever so extensive and universal, does not directly affect the wages of many millions of laborers in a country establishing the tariff. For instance, as early as 1880, 7,299,000 farmers were not directly so affected, nor were the 5,884,000 producers engaged in transportation in the United States or in professional and personal services; nor were the 2,216,848 bread winners in 1880 (and millions more at the present time), to-wit: bakers, blacksmiths, plumbers, masons, carpenters and nearly all the decorating and house-work trades, because their work is done in the country and the identical work of the same trades of foreign countries is done at home, and is not in competition with the work of our own trades as here set forth.

373. Mention some forms of protection or assistance given to American trade and capital in our colonial history.

The Colonial governments assisted tradesmen and undertakers by direct grants of money (subsidies, not loans) and by loans; exemptions from taxation was granted to stimulate investments of capital in industry, thus Virginia exempted all persons and property devoted to mining and smelting iron; bounties were offered and given for the construction of textile mills, in one case "3 pounds for the finest and best piece of linnen, 40 and 20 shillings for the second

and third best"; "the Pennsylvania legislature in 1788 awarded 100 pounds for a person who introduced a machine for carding cotton"; skilled laborers immigrating into certain districts were given rich bounties in land and money; legislative provisions were made for securing cheap raw material; monopolies for a certain term of years were granted to certain undertakers. Protective tariffs were established between the Colonies themselves even to the time of the adoption of the new Constitution in 1787 (by which the power to regulate commerce and pass tariff laws was restricted to the federal government while all inter-state tariffs in the United States were automatically declared void and were abolished and prohibited.) The protection of the industries which had sprung up during, and under the pressure of, the Revolutionary War, was immediately taken up by the first administration under the constitution of 1787.

[The American Constitution drafted and adopted, though not yet ratified, in 1787, was originally drafted in its larger scope by Pelatiah Webster, a merchant, financier and economic thinker of Philadelphia, and was published in 1783. It served as the basis for the deliberations and proceedings of the memorable assembly of statesmen in the Constitutional Convention. Our Constitution, entirely devoid and free of the patriotic effusions of the Declaration of Independence and of that entire era, is a sober, stern business document, conceived and elaborated by men of business and keenly alive to the economic demands of the times. It is a monumental protest, in all its business sternness, against the reckless, haphazard, arbitrary and ruinous economic state and legislation by the thirteen states, and is, aside from its constitution of the government and the construction of the liberties or immunities of the citizens of the United States, a purely and wisely framed economic document. The economic content and spirit of the constitution is particularly pregnant in Article I, Section VIII, containing the powers of the congress with respect to domestic and to foreign trade, taxes and tariffs, bankruptcy and the monetary system and its uniformity throughout the United States, coinage and counterfeiting, post-offices and post-roads, patents, copyrights and the advancement of industry and art, security of trade, and piracy; and in Section X, forbidding separate trade and other treaties between the states and between the single states and foreign states; the obligation of contracts, and as to legal tender. Also Section IX with regard to interstate trade, etc.]

374. Give a brief survey of the principal tariff legislations in the United States.

(a) The first general tariff law passed in 1789, with moderate protection for some American industries averaging only 8½ per cent of the value of the articles;

(b) Until July, 1813, twenty-four more tariff laws were passed, being, however, more of a financial than of a protective character;

(c) The full acceptance of the principle of protection was given expression in the high tariff of March 20, 1816, laying imports of 25% ad valorem on linen, woolen, cotton, metal, porcelain, glass and other goods, etc., and 30% on finished clothing;

(d) Despite the deep resentment of the South the policy of protective tariffs was persevered in and the tariffs were considerably raised on iron, 1818, on wool and cotton, 1824, 1825 and 1828, in which latter year raw wool, hemp, flax, coal and other rawstuffs were heavily protected; in 1833 a reduction on which tariffs was effected on account of the Nullification Act of South Carolina and its threat of secession;

(e) The gradual reduction provided in the tariff law of 1833 (Clay's compromise) was not entirely executed and 1842 saw a return of high tariff policy. The temporary reduction of these high tariffs brought about by the free-trade (Democratic) administration of Tyler since 1844, became unpopular on account of the severe industrial crisis of 1857 and a return of high tariff policy was signalized in the Morrill tariff of 1861, supplemented by the Civil War tariffs of 1862 and 1864.

(f) In 1867 wool and woolen goods, in 1869 copper ore and copper tariffs were increased, while the reduction of some tariffs in 1872 was repealed in 1875.

(g) The McKinley tariff (McKinley was chairman of the committee of Ways and Means committee of the House) of October 1890 was the high water mark of American tariffs until then, increasing duties on agricultural products, wool and woolen and cotton goods, on tin plate and other articles, while steel and other self-reliant staple tariffs were reduced.

(h) Cleveland's Administration, on account of a refractory congress, ill succeeded in the proposed reduction of the tariff in the Wilson Tariff Bill of 1894.

(i) The Dingley Tariff of 1897 in McKinley's administration was a revision of the tariff of 1890 upward. All goods imported on other than American vessels are subject to an additional tariff of 10 percent, unless these ships, by treaty or by congressional action have been put on a basis of equality with American bottoms. No goods may be imported on non-American vessels, or on vessels of the country where the goods originated or of the country whence such goods have been usually imported, a navagation act which, however, applied only to such countries which maintained the same restrictions against American imports. Coastwise shipping is restricted to American vessels only, and the import of cattle is prohibited. The import of commodities entirely or partly produced by prison labor is forbidden. Materials for ship construction may be imported under control if they are destined for ships of foreign countries, or for American ships provided these ships shall include in their trade routes Atlantic and Pacific ports of the United States.

(j) The Payne-Aldrich Tariff of 1909 restored hides (dutiable since 1897) to the free list, reduced duties on numerous articles including iron, steel and refined sugar, but considerably raised other duties, especially on textile goods and generally disappointed the great demand of the country for a revision downward. The tariff of 1913 placed sugar and wool on the free list, effected a broad revision of the tariffs downward and marks the most incisive change of high tariff policy since the Civil War.

CHAPTER XIV.

DISTRIBUTION.

Article 1.

PRIVATE PROPERTY.

(NOTE. The ethical problems involved in the actual process of the annual or periodical distribution of the product of the national economic energy are not treated in this book on Political Economy. The processes of distribution are here given merely as the result of the working of actual economic capitalistic conditions. What is here intended is merely to treat of, and to answer, the question: how does economic distribution take place and by what factors is it determined, not: how should distribution be made according to the demands of ethics and justice. The ethical phases of distribution, that is, the problems of a just rent, a just interest, a just undertaker's profit, and a just wage are part of the science of Social Politics. The inclusion of a brief treatise of the institution of Private Property appeared as apposite under the present chapter as it could have been under any previous sub-division of this book. A treatise of the Family, as the fundamental institution of all social life, also, has been deemed more in place in Social Politics and in Political Science, than in the present catechism of Political Economy. Social Insurance, emphatically a problem of Social Politics, has no legitimate place in the present book. See Foreword to this book.)

375. **Mention the great social institutions on which the social economy of a nation must be based.**

The institutions of private property, the right of inheritance, the family, the state.

376. **What is property?**

Property is complete rightful dominion of a person over a material object.

377. **What is the peculiar import of property right?**

Property right is the nucleus and center of all private right. "It is the totality of the legal rules determining the rights of use and the prohibition of use, for individuals and for social organs, of the material things of the exterior world." Schmoller.

378. **Is property right merely of legal (human) origin?**

Property right is founded in Natural Law, and it is prior to any state organization or state power; erroneous theories on property right and its origin were held by Hobbes, Rousseau, Bentham, Montesquieu, Mirabeau, Anarchists and others.

379. **Why is property right a right by Natural Law?**

Because the individual human being, prior to and independently of, any state organization is vested with the natural right to his economic maintenance, security, perfection, and self-culture, which purposes cannot be secured for the vast majority of men without private property.

380. **Has historical research shown property to have been an ancient institution?**

Yes, and its existence has been satisfactorily traced back and proven for the ancient states of Babylonia, Assyria, Egypt (the accurate surveying of the soil of the Egyptians to fix the property boundaries after the inundations from the Nile) and among the Israelites.

381. **To what extent has collective property, that is, property owned in common by communities, been proven to exist in ages past?**

Collective property, even in land, has by no means

been shown to have been universal in prehistoric times. "Nor has it been proved that in a single instance collective ownership had acquired the character of a permanent and universal institution in any known people which attained to a higher stage of civilization. This fact which Evolutionists (on the origin of property) cannot dispute suggests the inference, that precisely collective ownership must be regarded as a hindrance to the development of a higher civilization." Pesch, I. Comparative Jurisprudence and the methods of historical analogy had one time asserted the prevalence of collective ownership of land for many centuries under investigation, for: Germany, Denmark, Hungary, Afghanistan, Highlanders, Slavs, Albanese, Russians, ancient Italy, Peru, Mexico, China, India. The erroneous conclusions arrived at by these methods has been effectually refuted by the noted German economic historian von Below. See also Philoppovich, I.

382. Is property right an absolute right?

No, it is not an absolute right, but dynamic, that is, it is subject to extension or restriction by the authority of the state or of a lesser community for the sake of the common good.

383. Upon what double basis does property then rest?

Upon the Law of Nature, ordained by God, fundamentally and primarily; secondarily property right rests on the positive law of the state. That is, while property right is God-given, the legal use and limitations of property right originate from the state power and its positively (human, historical) legal order. (Pope Leo XIII on Property in Rerum Novarum, May 15, 1891; Apostolici Muneris, Dec. 28, 1878).

384. State the import of the right of property in its larger economic and social scope.

Private property is one of the most powerful incentives to work. Without it no progress, no civilization, no human self-perfection. No production is possible unless the producer (at least some producer) has exclusive authority to employ the factors of production for his productive process. Property in the

economic sense is the totality of material goods belonging to an economic unit and subject to it's control to the exclusion of control by others. Juridically: Property is the title to the totality of material goods or to claims representing goods. The possession of property results not only in economic power and independence of the owner, but not infrequently causes economic and social dependence, if not worse, for the laborer without property. Property controls production and its processes, tends to create, and today overwhelmingly has created, a relationship of dependence of those who do not own from those who own too much. The possession of property is one of the chief determining factors in the process of Distribution, that is, in the apportionment of the annual product of a nation. The product itself is distributed to the landlords as Rent, to the capitalists as Interest, to the employers or undertakers as Profit, to the laborers as Wages.

385. **What is private property?**

Private property is such as belongs to an individual or to a private company or association (John Smith's house and the property of our railways or of the Steel Trust are private property).

386. **What is public property?**

Public property is such property as belongs to a public corporation (city, state).

387. **Is private property merely an economic category?**

By no means. Property and the problem of property are primarily social categories, that means, things of social importance. For property, in our present political and economical order, has become an essential complement to the legal freedom of personality, because through property the actual dependency of one person from another person is largely determined, that is, diminished or entirely eliminated. Hence, property and the legal order of property is one of the most important elements of our entire social order. "The legal order o fproperty is the legal regulation of the totality of relations between the individual persons and social organs to the material

world; it determines according to the prevailing conditions of powers and of the prevailing moral principles, in the form of law, the distribution of land and mobile property to the individuals and to the social organs" (Schmoller).

388. **What is the right of inheritance?**

The right of inheritance is the right of the testator (that is, the owner) to regulate and determine the transfer of his possessions after his death; on the part of the legatee it is the right to enter upon the possesion of the legacy after the death of the legator.

389. **Why is the right of inheritance of economic relevancy?**

Because it is an extension of the right of property beyond death, until now recognized, albeit with limitations, in our existing social order.

Article 2.

INCOMES AND THE ANNUAL PRODUCT.

390. **What, in last analysis, limits the possible maximum portions of income to be distributed to all members of an economy?**

Their common annual or periodical product.

391. **State the condition of a national economy, at rest, with a view to the possible national distribution of the common national product.**

The national economy viewed at a given moment will present the various persons, classes, agencies and producers as possessed of a definite sum of commodities: capital, consumptive goods, money, demands

and claims (bills receivable, coupons due, notes, mortgages or other titles to money-payment from others), and it will also show them burdened with financial or other economic obligations (bills, coupons, notes, mortgages, and debts and obligations payable) toward others. Whatever be the share of each individual in the total wealth, total claims, or total indebtedness as against others, at any given moment in the year, is the result of the distribution of goods and represents, in a measure, the degree to which they may be able to satisfy their daily wants. The shares and claims belonging to each one are the result of their economic or other activities and the gain, profit, rent, salary or wage received by them. The measure of the satisfaction of their wants is determined by their income, their income is the basis of economic class distribution in society. Hence, it is a question of paramount importance how these shares in the annual produce are produced, or rather, how they are divided, and how they are determined as to size and value . . . In the process of producing the annual product millions have taken a part, some by producing the rawstuffs; others have produced from these the finished articles (flour from wheat, bread from flour), while others have been engaged in selling the rawstuffs and the finished articles; some have furnished the land, others the capital (money), others the labor. They all demand a share of the common product of their common labor or other contribution (land, capital, risk and undertaker's capacity).

392. **In what form are these shares in the common product distributed?**

In the form of money, or at least in goods and services expressed in terms of money. And the money they have all received as a means of buying a share of the actual product, together with other claims that may not yet have been liquidated to them, represent the total claims the individual members of the national economy have to the acquisition of parts of the total common product. (Part of the money and, consequently, part of the claims—that is purchasing

power—to the total annual product is also in the hands of those who have not contributed directly to the product, as for instance the professions: lawyers, physicians, teachers, ministers, artists, actors, etc.; while others, who have in no manner whatsoever contributed, must also be fed and maintained from the annual product: infants, juveniles, the old and invalid, the military forces). The measure of the money income of all classes will determine the size and quality of the share they will be able to acquire of the total national product, and will determine, over and above, the measure of their saving of wealth.

393. **What is the annual income of a people according to Adam Smith?**

The gross income of all inhabitants of a country is the total annual product of their land and labor; the net income is that portion which they may use for consumption, minus the portion necessary for the conservation of their capital.

394. **In which double sense may we speak of the distribution of the annual product?**

In the sense of the distribution of the actual, physicial product (so much food, clothing, etc. per person), or in the sense of the distribution of the value . . . of the total annual product.

395. **For whom is the actual physical product a means of income?**

The actual physicial product is a means of income only for those who have produced it, but this physical annual product is not in itself the supply of goods from which incomes are derived. By the forming or making of incomes there are created claims on the part of the several individuals or organized economic units (companies, families, firms) to goods in general, which claims may result in the acquisition and consumption of parts of the actual physical annual product, but which need not necessarily be limited to the consumption of the entire annual product, nor need necessarily include the entire annual product as their (the claims') content. (In other words, the salaries, wages, profits, rents and interest gained and

paid in one year may buy more than the annual product, or they may be equal to the purchasing power of less than the whole product, or while equal to the purchasing power of the whole product, they may be not expended but partly saved). The individual incomes, therefore, are not limited by the annual physical product, but they are limited, many of them, by the magnitude of the value of the physical annual product. For the sum of all incomes of those who have contributed to the product cannot long continue to be greater than the money-value of the product, from which these salaries, etc., must be paid. The process of the distribution of the value of the annual product is this:

From the annual product must be derived the incomes of the undertaker, the capitalist, land owner and laborer, these who have contributed toward the mechanism of exchange (bankers, organs of trade, transportation, etc.) Besides, from the incomes of the economically productive people the incomes of all the economically non-productive people must be derived and paid. The incomes of this latter class are not so immediately (as of those economically productive classes) so many shares in the real product, but they are titles to the acquisition of shares of that product. But even the economically non-productive have mostly contributed to the general result of the annual production through their talent, planning, adjudication of the law, inculcation of honesty and morality, entertainment and pleasure (for the recreation of the laborers and all the productively engaged, etc., etc.) Hence, what we call the annual national product is not alone a product of the actually productive classes, but is a product of the entire social, legal, legal-economic organization of the people.

396. **What, then, is the distribution of the annual product?**

The distribution of the annual product is not the distribution of the product itself but of the value thereof, parts of which value are represented mostly in the money shares received by the classes and members of the national economy.

397. **In what sense does the annual product limit the vol-**

ume and value of the total incomes?

In the sense that the real annual product is the only store or fund of consumptive goods produced by the national economy (all farmers, capitalists, undertakers, laborers and all other people have no greater fund of actual consumptive goods at their disposal than has been produced by them. The greater the store of actual goods, the greater will ordinarily be the single share of these goods purchaseable by the money income of each member; the smaller the total actual store of goods produced, the smaller the actual single portion purchaseable by the several incomes in money).

398. **Is the actual national product the only fund of consumption for those whose share of it is represented in money?**

No. For there may have been made savings from previous annual products, and the own national product may be augumented by portions from foreign national products.

399. **What is the yield of the annual national production?**

It is the sum or quantity of goods produced, or the sum of values won, with the expenses of productive power, the cost of production not deducted.

400. **What is the net yield?**

The net yield is the sum of goods produced, or the sum of values won, with the expenses of production or of exchange (trade) deducted—the net yield or income.

401. **If the net yield of a people of one million producers is $1000.00 per person will then the net national yield be one million times $1000.00?**

By no means, for the net national yield of a national economic year or period is not obtained or ascertained by the mere addition of all the single net yields within that national economy.

402. **Explain what is the net national yield.**

The national net yield differs from the sum of all the single net yields as much as the national wealth from the sum of all private wealth. (For instance, my pri-

vate wealth may partly consist in $1000.00 of Liberty bonds; a million other people have each $1000.00 Liberty bonds, the private wealth of all these together being aggregate values of Liberty bonds possessed between them. But all these and all other Liberty bonds taken together, while they constitute private wealth—that is, private claims to repayment of capital and to payment of interest—do not represent one dollar of national wealth. Quite on the contrary. If all the Liberty bonds were destroyed in one day the national wealth of the United States would not be lessened by one cent, provided the bonds were owned in this country. The reason for this is because the Liberty bonds are not wealth, nor do they even represent actual capital, but they are a debt owed to their holders. The destruction of American owned Liberty bonds would not impair the national wealth any more than the destruction of all mortgages held on American real estate would impair American wealth. For, Liberty bonds, while a source of income and a title for reimbursement (for money lent) by the private holder are no national asset but a national debt. The destruction of a Liberty bond might even relatively increase the national wealth in as far as the sale of that bond to a foreign country would have increased the national liability to the foreign bearer to the extent of the face value of the bond plus interest. All Liberty bonds taken together do not represent as much national wealth as a single plowshare or a hoe upon our farms. They, like notes, mortgages, and other obligations are debts not assets in or to the nation). The national net yield, consequently, does not include the transfers of values from one economic unit to another in the economy (when my debtor, in the payment of his debt transfers to me $1000.00, this has not increased the national wealth, it has merely changed the position of a portion of that wealth. But when in liquidation of his debt the debtor raises several hundred bushels of wheat he has increased the national beside the private wealth). The national net yield or income always denotes an increase of actual goods, not a mere transfer. Hence all the transfers of value in trade and

exchange within a nation do not increase the national wealth, although the traders may individually and privately grow rich. But every new production be it raw-stuffs or new forms of utility increases the national wealth. National wealth is composed of actual goods within the nation plus the claims against other nations and minus the obligations or debts to other nations. National income is measured in the same manner. Hence the national income is the actual fund of consumptive goods produced within the nation or acquired from another nation (through investments in another nation's economy for instance, which entitle the investing country or its citizens to a share of the income produced in the debtor country).

Article 3.

CLASSES OF INCOME.

403. What classes of income do we distinguish?

(a) Private—belonging to individuals or to private associations, companies, families, stock companies, trusts, etc., and public income belonging or accruing to the public corporations: the city, county, state, national (all taxes, excises, duties, etc., are public income; but the salaries paid to the president, the members of congress, the judges and all government employees are private income);

(b) Natural and cash income;

(c) Nominal and real income. The nominal income being for instance $5.00 wages per day, the real income being the actual sum of goods or services which the wage will buy;

(d) Gross and net income, that is, expenses of

production, of the conduct of business, etc., not deducted or deducted, respectively;

(e) Founded income which is derived from property (land, the loan of one's capital for interest) or from the economic gainful use of capital (the income of the banker in th eform of interest gained on the moneys of his depositors loaned out to others), or non-founded income, not founded on the possession or use of property—labor wage;

(f) The politic-economic forms of income: undertaker's profit, the capitalist's interest, the landlord's rent, the laborer's wage.

(g) Originary and derived income; originary incomes being all those accruing from an actual part taken in the productive process; the derived incomes being incomes gained from a non-productive occupation (the dramatist's or poet's, lawyer's, teacher's, etc.,) is from non-economic activities.

Article 4.

UNDERTAKER'S INCOME

404. What is the undertaker's income?

It is the surplus of value from the price of his product over the values consumed in the productive process, or in the process of sale, if the undertaker is not a producer but a trader.

405. What elements compose the undertaker's income when he is also laborer, and the owner of his capital (for instance a shoe manufacturer who himself directs the business and owns the plant and the money paid for fixed and floating capital—wages)?

The income of such a laborer—capitalist—un-

dertaker consists of: (a) undertaker's wage; (b) profit in capital employed; (c) undertaker's gain, which is the eventual surplus over his wage and capital profit. When the undertaker's income is not equal to the normal wage for similar work plus interest on his capital then there is to be recorded the undertaker's loss. The distinction of these elements of the undertaker's income is of import for the comparisons between "profitable" and "less" profitable lines of production, investment and undertaker's skill and energy. (The founder of the Krupp works, Jim Hill, builder and president of the Great Northern Railway and many others were the directors of their own undertakings and drew the undertaker's wage income plus their profits and undertaker's gain.

406. **On what does the size of the undertaker's income depend?**

It depends in every instance on the difference of the cost of production and the price of his product on the market. In particular the undertaker's income depends on:

(a) The degree of the risk; for the greater the risks in an undertaking the fewer the number of those who will enter that line of production, and consequently, the less the competition the greater the gain if the undertaking is successful;

(b) His income is also dependent on the rate of interest he must pay on his capital or on the interest he might have achieved on his own capital if elsewhere invested;

(c) On the legal and social-technical conditions, such as: monopolies, the distribution of wealth (which determines the greater or lesser number of persons that may become undertakers), the organization of production on a large or small basis. (The more profitable an undertaking, the more will embark on it, the more keen the competition, the lower the prices—witness the automobile and rubber tires industry and numerous others).

Article 5.

INCOME FROM PROPERTY

A—RENT.

407. What is rent?

Rent in general is the revenue derived from the soil by the owner thereof.

408. What is rent in the stricter sense?

Rent in the stricter sense is the additional revenue derived from the soil owing to peculiar properties, fertility, forces or virtues in the soil or owing to its peculiarly favorable location as a source of revenue. This is rent in the stricter sense. Rent in the former, wider sense, is revenue from the lease of one's land to another user.

409. Why is rent of importance in the national social economy?

Because rent is the revenue of a very large and powerful economic-social class and because the abuse of the power possessed by the landlords has had, and has, much to do with the social struggle of the non-landholders.

410. Does land yield an income by and from itself alone?

No. Land yields revenue only in connection with capital and labor (the richest mines and the most generous gas and oil wells will result in no revenue to the owner of the land except at cost of capital and labor, the amount of which varies per unit of product from the mine or well according to many varying conditions and circumstances).

411. When does land yield rent in the narrower sense?

Land yields rent in the narrower sense only when the revenue derived from it is so great as to exceed the normal gain or return from labor and capital expended upon it.

412. Why do we call rent in the narrower sense "differential" rent?

Because it includes and denotes the difference of revenue between the normal and the supra-normal, or the difference between the lesser and the greater yield of two different qualities or positions of land.

413. From which causes does differential rent originate?

1. From the varying degrees of fertility of the single tracts of land. Rent from the difference of soils in point of fertility will originate as soon as the demand for the products of the soil has become so great as to make it necessary to cultivate also the poorer lands and to wrest something from them, even if it has to be done at a great cost of labor and fertilizer. Then, the better lands, producing at a lower cost of capital and labor will bring a rent, that is, their products will be sold at a price just as high as the products raised at greater cost on the poorer land, because there is a demand for all the products, as well those from the poor and those from the rich lands. The difference of the cost of production on the poorer and the better land will bring a different (i. e., greater) profit to the owner of the better land. The difference of profit in the sale of the product from the better land is called the differential rent.

2. Rent may also originate from the fact that the capital and the available (more intelligent, better disciplined and more conscientious) labor used on one piece of land is more productive than capital and labor expended at the same cost on another, equally good soil.

3. Rent may originate from the fact of a more favorable position of a plant to the market or to the rawstuffs (a steel works in Pennsylvania will easily bear a rent over a steel works, however perfect and up-to-date in Minnesota, on account of the greater proximity of the Pennsylvania plant to the rawstuffs: Coal and iron. A restaurant located on a busy street will bear a rent over one situated in a place less favorable and less convenient to the patrons. Truck gardens near Chicago bear a rent over truck gardens equally expensive whose products are yet needed and

imported into Chicago—for the proximity of the Chicago gardens will enable them to make a rent, that is, charging the same price as the distant-grown products plus the freight charges of the latter. The rent of the Chicago gardens will be at least equal to the freight expense of the products from the distant gardens. This differential rent resulting from superior advantage of position near the market or the rawstuffs, is realized from lands irrespectively of their use for agricultural, industrial or trading (a store on the main street of a town) purpose.

4. Finally differential rent may originate from such an increase of population with which the increase in the means of subsistence cannot keep pace. Such a condition will result in a competition between the buyers of the products of the soil to such a degree as will raise the price of products raised even upon poor soil at great cost beyond their normal price and bring a rent to these poor soils.

414. Is rent a result or a cause of high prices of products?

Rent is always a result of the high price of products, never a cause thereof, and it is always a differential income.

415. How do we arrive at a recognition of rent?

Since rent is only the differential between the cost of products raised on one soil as against the cost of products raised on a less favorably located or a less fertile soil, it can never be ascertained or recognized in itself, but only by comparison with the incomes from other soils.

416. What three classes of differential rent do we distinguish according to the foregoing?

Rent of agriculture, rent of industry (also of mines), rent of position.

417. Where does rent of position assert itself most?

In the cities (for housing and trading purposes), where the vantage position of land often is an insurmountable monopoly.

418. Which modern factor tends to destroy the monopoly position and the consequent rent of city land?

Our means of transportation, by which cheaper land outside the city, yet easily accessible by fast means of transportation, enters into competition with the dearer land of the city, especially for residential purposes.

419. What is the significance of rent for private economy?

Rent is a source of additional income to the private economic unit (business man, owner of rented house, store, factory, etc.)

420. When is special attention paid to the existence of rent in a piece of property?

In the sale of property. For the seller of a property bearing rent will capitalize this rent and by so much increase his price of sale on the property. (For instance, a house worth $100,000 bearing a normal capital profit—or rent in the wider sense—of $5,000.00 may in sale achieve a price of $120,000 if the seller has, in consequence of the scarcity of soil and houses and in consequence of the competition of renters been able to collect $6,000.00 in rentals. The additional $1000 of rental, capitalized at the assumedly prevailing rate of interest on capital of 5 per cent represent the interest on a capital of $20,000 loaned at five per cent. If the seller of the house which bore him that differential rent of $1,000.00 per annum can dispose of the house at the capitalized value as here set forth, then the house will bear the buyer no differential rent any more, because the $6000.00 he will be forced to collect in rentals represents nothing but the normal interest on his capital invested in the house at the time of its purchase. Moreover, the buyer of the house, in order not to lose, will have to keep the rental of the house at such a price as will yield him $6,000.00, but what he draws is nothing but interest on his capital with absolutely no differential rent.

421. What, then, does rent effect for the private economic unit?

It effects a greater income and is a source and means of accumulating or increasing the value of private wealth.

422. What is the harmful effect of rent from the national and social viewpoint?

Rent increases prices and (see the example of the house sold at a capitalized price of the differential rent) has a tendency to maintain high prices to the detriment of the masses and society at large.

423. Can differenital rent be avoided?

No. For differential rent is the result of the estimate and valuation of the products of the soil, which valuation necessarily increases with every increase of population.

424. Who are among the early economists writing on the subject of differential rent as an income from better soils as against poorer soils?

The English economists Anderson, Malthus and Ricardo all living in the last quarter of the 18th and in the first half of the 19th centuries. (The rent of position, that is the most favorable position of land or of a plant to the market, was shown first by John Henry von Thuenen, 1785-1850, Oldenburg, in his principal economic work "The Isolated State."

425. What proposals have been made to eliminate differential rent as an income not based on economic merit (unearned increment)?

It has been proposed (a) to confiscate this unearned increment by taxation (thus Wolfcof, Opuscles sur la rente fonciere, 1854; and Henry George, the American land reformer in "Progress and Poverty, 1880.) See the excellent discussion of the "Single Tax," the refutation of George's doctrine, and the case of Dr. Edward McGlynn in "The Fundamental Fallacy of Socialism," by Arthur Preuss, 1909;

(b) It has been proposed to make the soil common property of the state.

426. What can be said in general of the practicability of these proposals?

The differential rent cannot be evaluated in itself and is part of the total product of the soil; but the total product of the soil is also partly a product of labor and capital. To confiscate the differential rent of the land would involve the partial confisca-

tion of capital and labor. Nor would this confiscation of the soil prevent the rise of new rent at a later time. But even if the community were to profit from this confiscation, the community would also have to bear the eventual depreciation of the soil and the financial losses consequent thereupon. Lastly, the acquisition of the soil by the state if effected on a basis of full compensation to the private owners would involve such sacrifices for the community that little would have been gained, nor can the exploitation of the soil, owned by the state ever result in such beneficent results to the national economy as under private ownership.

B—INTEREST.

427. What is interest?

Interest is that portion of the yield from a productive process or from an exchange transaction (the sale of textiles, shoes, furniture, etc.,) which is attributed to the capital which was used in that productive process or business transaction. (For instance: in figuring, at the end of a business year, the gains and losses of his undertaking, the business man will try to ascertain not only whether he has been compensated for his rawstuffs in which he invested $10,000; for his wages paid to laborers, $10,000; for his own labor, $2,000; for the wear and tear of machinery, etc., but he will also have to ascertain whether over and above this return of values invested he has also "made" enough to repay him the interest on this capital, say at the current rate of 5%. If the total value of the plant, the rawstuffs, the labor wage in a given business year was $120,000 then the business man must try, to avoid eventual bankruptcy, to secure not only a return of all the value invested in rawstuffs and wages, $20,000, but also the yield of interest on this sum and on his plant. The reason is, that if his business did not yield him also the current rate of interest on the $120,000 of the total capital of that year, he might just as well have stayed out of business and have invested his capital in some other, or in some other undertaker's

business at the rate of interest then prevailing. Much more so, if he used not his own capital, but the capital of some money lender, on which the undertaker always must pay interest.

428. **What is capitalization?**

Capitalization is the process of reducing the interest yield from an undertaking of any kind in which capital is invested to the amount or value of the capital itself, thus ascertaining the yield value of a given piece of property. (If a house I have let brings me annually $1,000.00 rental, with taxes and normal repairs paid, and if the prevailing rate of interest on loan capital is 5%, then the investment value of my house is at least $20,000. For in order to achieve a yield of $1000 in interest paid to me I should have had to loan $20,000 to someone at that rate.

429. **Of what import is capitalization in the world of business?**

It makes possible a comparative calculation of the investment values of properties of different natures and is of decisive importance in the frequent shifting of capital investment from one line of business to another.

430. **What is a loan?**

A loan is the temporary surrender of goods or values on the promise of their return by the borrower at a specified time at a certain rate of interest. Loan on interest is a sort of purchase or exchange of present goods for future goods, to-wit: $1,000 today for $1,050 one year from date, the interest of $50 being the premium or compensation paid for the surrender of present use for use one year after date.

431. **Which factors determine the rate of loan interest?**

On the part of the borrowers the price of the loan is determined.

(a) By the number of borrowers or the sum of money asked;

(b) By the valuation of the capital, that is, by the value the loan capital to the borrower. This valuation is determined by the quantity of the capital, the length of time for which loaned, the easy or hard

terms of repayment and the prospective lucrative or less lucrative uses to which the borrower intends to devote the loan;

(c) The economic ability of the borrower to repay (a reliable and solvent borrower will get cheaper loan money than a borrower less reliable and less solvent).

432. What determines the price of loan money on the side of the lenders?

(a) The degree of sacrifice involved in the loan;

(b) The security given for the return of the loan;

(c) The number of the lenders and the quantity of loanable capital.

NOTE—Interest in ancient times and in the Middle Ages was often exorbitantly high ranging from 4-10, from 20-43, 66 and even 108%. In the 12th to the 14th century interest in England was mostly 20½; Holland, when at the zenith of her commercial strength and financial development, toward the end of the 17th century had a rate of only 2½%. Short time loans are higher than long time loans on account of the loss of time and interest through repeated re-investment at short intervals. Prof. Bullock in his "Introduction" recalls that on October 29, 1896, the rate of interest on call loans in New York was 10%, at noon it rose to 50% annual interest, and before night to 80-100%. Loans in the Middle Ages were mostly loans for consumptive purposes, not for production, hence the church laws against interest Since the rise of the capitalistic era money and loan-money "fructify" through investment in production and trade, hence the reasonableness of interest that is not usurious.

[According to Hainish "Die Entstehung des Kapitalzinses," 1907, cattle is the prototype of capital (caput—a head of cattle) and of capital's productiveness. The head of cattle loaned out to another brings a gain in its young, which in primitive economic conditions is reducible only to the capital—the cow, sheep, etc., itself; for labor and the abundance of free pasture played only a little, if any, part in the keep of the cattle, or was covered by the value and use of the cattle's milk. The calf was considered as the gain or surplus of the economy and was the yield or interest of the cattle-capital. The cattle-loan was followed by the grain-loan which, too, was productive, etc. See Philippovich, I.]

Article 6.

INCOME FROM LABOR—WAGE.

433. Which forms of labor income do we distinguish?

(a) The labor income of the undertaker;

(b) The labor income of employees of the state whose salaries or wages are fixed by law and as a rule are not subject to competition;

(c) The labor income of certain undertakers and their employees fixed by law or ordinances (fees, of lawyers, notary public, prices paid for concessions, etc., and

(d) The labor income of those laborers whose wage or salary is co-determined by the factor of competition between the laborers and between the employers who compete for their employment.

434. Mention the chief forms of wages.

(a) Money wage and wage in kind or commodities, the latter having been more and more supplanted by the money wage which, since the rise of the capitalistic era has become almost universal, except for domestic and farm-laborers who frequently draw both money wage and wage in natural goods;

(b) Nominal and real wage is only a relation, not different forms of wages; and the relation expresses the relation of the nominal value of the wage money received to the purchasing power it has.

435. Mention the various forms of wages according to the standards or criteria according to which wage is computed and paid to laborers.

Time wage, piece wage, sliding-scale wage; wage according to bonus system for quantity of products produced, for quality of products, for saving of time,

machinery and rawstuffs, for special carefulness in the avoidance of accidents; profit sharing.

436. **Granted free competition which factors determine the rate of wage on the side of the employers?**

(a) The number of employers seeking laborers;

(b) The volume of labor required;

(c) The employers' valuation of the labor desired.

(d) The employers' valuation of the price of labor (money); employers producing under unfavorable circumstances will value the price of labor, money, higher than their competitors who produce under more favorable circumstances; the former will seek to secure cheap labor in order to keep up with their competitors.

437. **What determines the wage rate among the laborers?**

(a) The number of laborers seeking employment;

(b) The sum total of their possible volumes of labor;

(c) Their valuation of the price of labor (money);

(d) Their valuation of their own capacity for labor.

(The skilled laborer whose capacity has been developed at the price of a costly education will value his labor higher and will estimate a small wage less than an unskilled laborer; so will a married man with family responsibilities value his labor higher and a low wage less than the unmarried, etc.)

438. **From what fund directly are wages paid?**

Wages are paid from the fund of the undertaker's profit.

439. **From what fund may the rise of wages ultimately be paid?**

The rise of wages or their increase is paid and ultimately borne either by the undertaker or by the consumers.

440. **What results when increase of wages are borne by the undertaker?**

An increase of wages borne by the undertaker may result in driving the undertaker out of business and into another line of undertaking. When this happens capital is withdrawn from the first line of undertaking and wages in the line will fall, especially when the capital withdrawn is re-invested in a foreign country.

441. What happens when increase of wages is borne by the consumer?

When increase of wages is borne by the consumer the consumers' savings will decrease, investment capital will be diminished in proportion and wages again will fall on account of a surplus labor as against opportunity for employment.

442. How can increase of wages be maintained without impairing the profits and strength of the undertaker and without impairing the consumers' savings?

By an increase of the rate of production, or, which is the same, by an intensified degree of the productivity of labor, for, all wages, salaries and rewards are lastly paid out of the fund of the total national output of production. Or, if the capital of undertakers driven out of business by an increase of wages cannot be invested to any large extent in foreign countries, the increased wage may be retained, the undertakers' profits and the consumers' savings will not be diminished but the rate of interest on loan capital will fall, for capitalists will rather invest at a low rate of interest than not invest at all.

443. Why can a legal minimum wage in all industries and increases of wages promiscuously not be enforced by the state and organized labor, respectively, without detriment to the national economy?

Because a universal minimum wage, and arbitrary wage or exorbitant wage increases would weaken the undertakers and the home national labor in their competition with foreign undertakers and with foreign laborers working on a smaller wage basis, to offset which handicap a protective tariff alone could suffice, unless the foreign competitors would also adopt an approximatingly high wage basis

minus the cost of freight for exports. (See the Wage Fund theory, and the Iron Law of Wages in another chapter of this book).

444. **By what is the general level of all wages ultimately determined?**

By the total product of the national economy, that is, by the total annual output of the labor of the nation. A part of this output accrues in the forms of rent, interest, undertakers' profit to other than the so-called laboring classes (every man who works with brawn or brains is a laborer). But the greater the output the greater will also be the share of the laborers. The real wage fund is the total annual product of a national economy.

445. **In what form are all incomes paid?**

In the form of money, or at least on the basis of a valuation expressed in terms of money.

446. **Does the money income determine and reveal in itself the size of the income and its value to the receiver?**

No. The value of the money income is ascertained by its purchasing power in the market of real goods. The true test of the value of the money income is the quantity of goods it will buy.

447. **By what, then, is the real income of all receivers of income limited?**

It is limited indirectly by the existing possibilities of production, and immediately by the existing store of actual goods.

448. **Are the possibilities of production and the volumes of available consumptive goods stable quantities?**

No, they are in constant flux and change, owing to the increase or decrease of productive capital, of its productivity; and on account of the constant flux and change of productive labor and of its productivity; they are lastly inconstant owing to the shifting of capital from one line of production to another.

449. **Are (differential) rent and undertakers' profit a part of the cost of production?**

No. Of all four forms of economic income (rent, undertakers' profit, interest and wage) only interest

and wage are part of the cost of production. A fall and rise in the cost of commodities is effected primarily by the latter two forms of income alone.—Rent may, secondarily and indirectly, cause a rise of prices, after rent itself has been caused by a rise of prices on the products of the soil in consequence of production on less fertile soil where production is more expensive than on more fertile soil. Once rent has been capitalized (see the Article on Rent) this capitalization will affect prices and drive them upward.

450. **May the undertaker's profit be capitalized and then, also, affect prices in an upward direction?**

Yes. This happens in undertakings whose production is under the protection of patents, copyrights, or trademarks, or which through the exceptional reputation of the firm have acquired a quasi monopoly position in the market. The sale of such an undertaking to another often includes a price for the monopolistic advantages adhering to the undertaking and reacts on future prices as a capitalization of the undertaking's previous profits. The buyer of such an undertaking will strive to maintain high prices in order to make good the price he paid for the capitalization, in the same manner as the buyer of a piece of land or of a house has paid the capitalization of the rent (see Article on Rent.)

451. **What is the difference between the capitalization of the undertaker's profit and the capitalization of Rent?**

Rent capitalization and the consequent higher prices are more stable than the capitalization of the undertaker's profit and its consequent higher prices. The capitalization of the undertaker's profit can be eliminated or neutralized by a cessation of the artificial state protection (the expiration or annulment of the patent rights), by changes in the technics of production, or by changes in the tastes of the consumer and of a decrease of demand, or by competition on the part of superior management by other undertakings in the same line of production

Article 7.

HOW ALL PRIVATE INCOMES SHARE IN NATIONAL PRODUCT.

452. Which problem of Income touches the core of the present Social Question?

The problem of an equitable income to all economic classes, or the problem of a more equitable distribution of the annual national product.

453. Why is the laboring class the group that is most concerned with reference to this problem of distribution?

Because the laborers in their overwhelming majority have no other income but that accruing from their labor and because even that source of income is frequently unproductive owing to unemployment.

454. When the laboring population increases without an increase of productive capital, or without an increase of the productivity of existing capital, what is the result?

Wages decrease, interest increases, and, owing to a greater demand for foodstuffs, rent will rise.

455. When capital increases and population is stationary, what is the result?

Interest falls, wages rise, but rent remains stable.

456. When the productivity of capital is increased, while population and capital itself remain stationary, what will be the result?

Prices in commodities will fall and, consequently,

the real income, that is, the purchasing power of money will rise. This condition may result even in a rise of nominal wages (besides the rise of real wages), and rent will rise on account of the greater demand for the products of the soil, caused by a rise in the productivity of capital.

457. **Population and capital being increased, or its productivity rising, what will result?**

In this case interest and wages will remain stationary but rent will rise, on account of the greater demand for the products of the soil.

458. **What do these relations of income show?**

That there is a marked contrary tendency between capital interest and labor wage, the one falling when the other rises; and that undertakers' profits and rent are not so opposed.

459. **What do income statistics show with regard to laborers' incomes?**

They show that for the majority of laborers the incomes do not rise beyond the means of subsistence, or, at least, of a decent living wage without surplus for saving; that the small incomes, including those outside the laboring class proper, predominate, and that even with an equal distribution of all incomes from the total national annual product the incomes of all the people would not be very considerably raised.

460. **What practical inferences must be drawn from this economical-statistical fact?**

That not the mere raise of wages, nor even an entirely new scheme of management of the national economy—with all due regard for the much heralded Industrial Democracy—nor a new plan of distribution will relieve the receivers of low incomes, especially the lower strata of the laborers; but that the economic salvation of all concerned is in more justice, in more regard for man than for property rights, in more honest endeavor to do a day's work for a day's wage, in an increase of production, in the repudiation of the economic and social heresy of

a continually decreasing productive energy coupled with a disregard for the rights of capital and of the employer, in the cultivation of more thrift and the elimination of senseless extravagance on the part of many laborers and in a system of laborers' self-aid by mutual credit and other co-operative associations, especially co-operative rawstuff, sales and consumers' stores. (The moral and religious issues here involved are more appositely treated in Social Politics.)

CHAPTER XV.

CONSUMPTION OF GOODS.

Article 1.

GENERAL NOTIONS.

461. Which factors continually diminish the existing supply of goods—or wealth?

Destruction by natural forces and decay, gradual destruction by frequent use and the systematic use (capital) or direct consumption of goods for the satisfaction of human wants.

462. Why are all these forces and factors of destruction and consumption of essential import to the economy of a nation?

Because the degree and extent of their operation in the diminution of the nation's supply will help to determine the rate and extent of re-production, the volume of capital available for reproducing the consumptive goods, and the supply of goods available for consumption in the next economic period. For instance: the rate and extent of consumption of a nation's grain supply will determine how much grain will be available for reproductive purposes—seed, and how much, on the basis of the normal productivity of

cultures, may be expected to be on hand to meet the demand of the consumers for the next consumptive period. Where only one harvest is reaped per annum the consumptive period is one year, if we abstract from exports to foreign countries or from imports therefrom.

463. What is economic consumption?

Consumption in economics is the use of commodities for the purpose of satisfying human want. It is the intentional and purposive destruction of commodities undertaken on condition that this use, resulting in immediate or gradual destruction, serves greater values and satisfaction than the possession of the commodities unimpaired and in their integrity. (The gradual destruction of costly machinery, of the fertility of the soil, of clothing, etc., and the immediate and final use—destruction of food—brings greater and more desirable results than their conservation.)

The immediate consumption (of foodstuffs, of certain rawstuffs like coal, although burnt in the productive process) is called **final** consumption; the gradual consumption of standing or fixed capital (factories, machinery, or raw-stuffs converted into new forms of utilities as cotton into fabrics, timber into houses, etc.) is called productive consumption.

464. By what is the consumption of goods limited?

The consumption of goods is **naturally** limited by the supply of existing goods, plus the supply of goods that can be produced within measurable time, plus the goods that can be secured from a foreign economy.

465. What determines the volume of the consumption of goods over a longer period?

The available supply of productive capital, this supply being largely limited by the incomes of the economic units within the national economy. The demand for commodities results in higher prices, and higher prices offered for commodities are a stimulus for more production.

466. Why must there be a well balanced increase and reproduction of capital goods together with a reproduction of consumptive goods?

Because in each productive process which produces productive goods (machinery for instance) as well as consumptive goods (flour, clothing, etc.) there is a consumption of rawstuffs (coal, iron, cotton, fertility of the soil) which must be replaced in order that the productive process for the production of consumptive goods may be continued. This increase or at least re-production of productive goods alongside with the production of consumptive goods is all the more imperative under the pressure of an increase of population calling for food, and of an increase of people of a productive age calling for work and, consequently, capital. A nation which would not reproduce and increase its productive capital, only producing consumptive goods, would soon collapse and face economic bankruptcy and starvation. (The annual increase of population of 900,000 in Germany before the war and of at least as many annually in the United States called not only for a corresponding increase in consumptive goods, but also an increase in productive goods by which the increased demand for consumptive goods might or may be satisfied.)

467. Do changes or variations in the size of incomes affect the volume of consumption?

If the size of incomes vary within the same class —for instance, when one class of laborers in a given period receive greater incomes than other classes of laborers, the total incomes of all the laborers however being of the same collective magnitude as they were in a previous period—these variations will not considerably effect a change in the volume of consumption; but variations of income by which the total incomes of one class are diminished while the incomes of other classes are not increased, naturally will result in a decrease of consumption; increases of incomes in favor of one class together with decreases in the incomes of other classes, will immediately result in a shifting of a greater demand for consumptive goods from the less favored classes to

the class achieving an increase of incomes. The direction which the greater demand for consumptive goods on the part of the more favored class will take, depends upon the character of the class (and its numbers) to which the greater incomes have shifted. An increase of incomes accruing to the laboring class will, on account of the character and the number of this class, result in a greater demand for consumptive goods and for commodities of moderate luxury. An increase of incomes in favor of the wealthy class will result in a corresponding increase of demand for luxury of the extravagant type. An increase of incomes in favor of the laboring class is more desirable, even from a mere economic viewpoint (leaving the moral and social viewpoint entirely aside), because such an increase will result in greater social and economic welfare for a larger number, in more work and productive capital and the better conservation of the labor power of the nation.

Article 2.

DISHARMONY BETWEEN PRODUCTION AND CONSUMPTION.

468. In what does the shifting of the size of incomes often result?

In a disturbance of the harmony between production and consumption.

469. By what other name is this disharmony signified?

The disharmony between supply and demand.

470. Which factors contribute to this disharmony between supply and demand?

Increase or decrease of population (emigration, immigration, natural increase or decrease of high

birth rate or high mortality, war, etc), sudden decrease in the "supply" of productive labor (the present plight of Europe with millions of the best productive forces gone), the shifting of capital from one line of production to another, the destruction of utilities for productive purposes by new inventions (the elimination of the sailing vessel and the disastrous bankruptcies resulting therefrom, in consequence of the introduction of steamships).

471. How is this disharmony remedied under normal conditions of the national economy?

By a diminution of production, a higher discount (that is, a higher rate of interest asked for capital loans in order to discourage new undertakings), a temporary, automatic fall of prices, the disappearance of the weaker class of undertakers, etc.

472. What happens when this disharmony between supply and demand is only very slowly remedied?

In this case the unsalability of the over-supply of goods continues, undertakings, firms, banks collapse, shops are closed and unemployment follows, capital (money) is withheld from the market, credit is high, incomes for laborers and many others are diminished or cease altogether, accentuating even more the general stagnation of business and the unsalability of commodities—the general financial and economic paralysis leaping over to other countries, disturbing their trade and consequently their sales, their production, their employment and their credit institutions.

Article 3.

CRISES

473. What do we call the lingering disharmony between supply and demand with the consequences described hereabove?

We call this condition a **crisis.**

474. Do you know which prominent Socialists have made the periodic appearance of crises a formidable argument against the capitalistic order of production?

Engels and Marx, the latter in his famous standard work of "classical" Socialism "Capital." (Das Kapital, Hamburg, 1867, 1885, 1894, I, II, III vols., respectively.)

475. How does Lord Overstone describe crises?

"State of quiescence, improvement, growing confidence, prosperity, excitement, overtrading, convulsions, pressure, stagnation, distress, ending again in quiescence." (Lord Overstone, London financier and M. P., died 1883, the theoretical author of the Bank Reform of Peel).

476. What scope may crises acquire?

Crises may affect only one or several or all the parts and departments of a national economy: agriculture, industry, trade and finance, or only one section of any of these great departments, for instance, only the steel or the textile industry.

477. By what special names are crises known?

A partial or a general crisis; agricultural, industrial, commercial, financial, local, national and international; crises of production or consumption.

478. **Which causes may result in a financial (money) crisis?**

Adulteration of coin money, depreciation of the currency, paper money issues, sudden or violent changes of the value of gold and silver. The depreciation of the currency has been aptly compared with the sudden change of long or liquid measure in consequence of which a yard suddenly is only half a yard, so that the creditor to whom 1000 yards are owing would receive only 500 yards of cloth.

479. **In what other crisis does a financial crisis usually result?**

In a crisis of production and consumption, either partial or general, according to the intensity and extent of the financial crisis.

480. **What is a credit crisis?**

A credit crisis, as the normal consequence of a money crisis, is a situation in the credit market making it impossible for debtors to meet their obligations arising out of credit loans extended to them.

481. **How do credit crises originate?**

Generally speaking, credit crises are the natural result of money crises. But credit crises in particular are the consequence of an unsound extension of credits to undertakers especially of the speculative class who in their speculative-productive undertakings have assumed obligations for repayment of credit which becomes impossible when the yield from their undertakings is not forthcoming. When these speculative, albeit productive, undertakings involving great credit obligations for capital loans fail, the capital is not repaid by the undertakers, credits are restricted, consumption falls off, and production, accordingly, decreases.

482. **What do rising and falling prices, respectively, in the product of an undertaking, indicate?**

Rising prices indicate that the demand for the product has not yet been filled; falling prices indicate that it is filled or nearly filled.

483. **Why do not producers reduce production when prices**

fall, for the purpose of avoiding over-plus production and a crisis?

Not all undertakers estimate the market aright; and if some do, the errors of a few may neutralize the carefulness of others and involve them into the crisis of overproduction. Even with an overproduction clearly impending, production can not be reduced or stopped at will, owing to the minute specialization of technics and machinery fitted to produce only a very particular product, pattern, etc., or stand still altogether. The more costly the machinery and specialized the product, the greater the loss resulting from the idleness of the plant. Hence each producer, hoping that the other producer will stop production, seeks to produce even more but cheaper with still more perfect technics, trusting thereby to stimulate demand and to beat his competitors. Impending crises, even when foreseen, often intensify the progress of technics, accelerate production and the transition to giant plants which must produce on a large scale in order to exist. Besides, even when undertakers, in order to stimulate demand, produce cheaper, the retail prices follow the lower wholesale prices very slowly, thus neutralizing the efforts of the undertakers to avert a crisis.

484. **How can a revolution of transportation technics bring about a crisis?**

By raising up a competition in a foreign country whose distance from the home country made it impossible to enter into competition. Thus, the opening of the Suez Canal and the easy and quick communication it afforded between India and Europe resulted in an increase of rice imports from India to Italy, which latter country then was confronted with a crisis of its own rice cultivators, many of whom could not compete with the East Indian rice farmers. Also, American railways, the Homestead laws of the sixties and the introduction of steamships made the grain fields of the Mississippi Valley a formidable competitor to Central European, French and Russian farmers, resulting in the German grain tariff for the protection of German farmers in 1879. (See the author's book, "Der Deutsch-amerikanische Farmer,"

1913, pp. 218, 219.) Change of fashion may call forth a crisis to a very great and extensive industry. Thus the principal export industry of Switzerland, the silk and embroidery industry, is almost entirely dependent on the whims of fashion, so much so, that a single change in fashion for women's wear may depreciate the products valued at millions of francs. This dependency is all the worse for the reason that Switzerland has no voice in determining fashions.

485. **What may be said of the attempt and expediency to lend capital to foreign countries in order to avert a production crisis at home?**

This expedient may bring temporary relief, especially when the foreign debtor country buys the lending country's goods; but this relief is turned into disaster for the lending country when the borrowing country begins to pay interest on its loan or, far worse, when it begins repayment of the capital itself in the form of exports to the lending country, or when the borrowing countries are unable to meet their obligations to the lending country (this has happened in the cases of the debtor states of Greece, Portugal, Serbia, Portugal, Argentina). It is feared by many that the repayment of the Allies' debt, especially England's, to the United States may result in a crisis for our country when that repayment is made in the form of exports from the debtor countries.

486. **Which are the causes and phenomena usually preceding and indicating a coming crisis of production and consumption?**

War, revolution, crop failures, revolution of trade routes, commercial or tariff wars, sudden establishment or abolition of protective tariffs, revolution in technics of transportation, fashion, shifting of capital from one line of production to another, inflation of credit, depreciation of the currency.

487. **In view of all the foregoing, how may a crisis in general be defined?**

A crisis is a transitory, more or less general stagnation in the economic life of a people, following

as a reaction upon a period of unusual prosperity and economic aggressiveness.

488. Which are the three principal theories, i. e., explanations of the origin of the general crisis?

The theory of over-production, of under-production, and of a false distribution of productive forces (capital and labor).

489. What does the theory of over-production assert?

It asserts that the technical conditions and the economic organization of production develop and increase faster than the demand for their product. Machinery, inventions, means of rapid transportation and the organization of trade make it possible to bring more goods into the market than the demand can absorb.

490. What is the content of the theory of under-consumption?

This theory is closely allied with the preceding but, while admitting the facts of the over-production theory, seeks to explain the disharmony between overproduction and consumption with the fact that the laboring class does not receive an adequate portion of the national income. But the laboring class, being the most numerous class of the entire population, will be a decisive factor in the problem of consumption or over-production, respectively; and unless the laborers' incomes are commensurate with the volume of production, under-consumption and crises will follow.

491. What does the theory of the ill-placement of the productive forces state?

It states that the anarchic, that is, ill-regulated system of production under the reign of free competition results in an ill-balanced supply of capital for the various lines of production, some being oversated, others being underfed with capital. Moreover, the capitalists, unable to consume all their income, convert it into more capital, which adds to the overcharge of certain lines of production and speeds the bursting of the crisis.

492. State briefly the doctrine of Karl Marx (founder of "scientific" Socialism and author of Socialism's "Bible," Das Kapital).

According to Marx the last cause of all real crises is always the poverty and the limited consumptive power of the masses as against the tendency of the capitalists so to expand the productive forces as though their limit were only the absolute consumptive power of society. Furthermore, according to Marx, crises will recur again and again with increasing intensity, will increasingly result in social misery, in an increasing industrial reserve army (the unemployed who are ready to work at any wage), the consumptive capacity of the nation will continue to stagnate in consequence of an unsound distribution of incomes, until the last great crisis and the universal social revolution will usher in the rule of the proletariat and the communistic order of production.

493. Has Marx's and the Socialists' explanation of crises from over-production, inadequate incomes of the laborers and the masses and the anarchy of production been adopted also by bourgeois students of economy?

Yes, and they all have erred in not studying crises in detail and, consequently, have not offered an explanation scientifically acceptable and in harmony with the real facts and genesis of crises.

494. Where is Marx's theory at fault?

First, in insisting too much on under-consumption of the masses and in apparently assuming that this under-consumption is permanent, which, doubtless, is not the case. Least of all is there under-consumption in the period of prosperity regularly preceding the bursting of a crisis, when even the lowest strata of the masses often indulge insanely in consumption. The period of prosperity collapses because the high prices cannot be maintained, and then follow under-consumption and depression. Besides the under-consumption then is mostly on the side of capital goods as coal, steel and machinery. Schmoller finds the last and innermost cause of crises in the

speculative organization of individualistic-egotistic business enterprise with its mechanism of exchange and competition.

495. Which measures seem necessary and adequate to reduce the dangers of recurring crises?

First, to secure a more accurate estimate of the future demand, by a more perfect system of statistics of social, economic and financial character; second, to curb commercial egotism to a degree that will bring private interests more in harmony with the social interests and with sound economic progress; third, to provide the necessary legal and economic institutions and apparatus apt to insure the aforementioned purposes.

496. Which measures and legal and economic institutions, in the sense of the foregoing, are here involved for the prevention or reduction of the force of crises?

The entire system of state laws and state politics affecting production, exchange, incomes, trade and finance; a sound trust and Kartell system regulated or controlled by the state to prevent their development into monopolies; sound banking laws and a sound credit policy; the letting of state and municipal contracts during the periods of depression rather than in prosperous or normal periods, to forstall or to relieve unemployment.

497. What remedies may be applied when a crisis is at hand or already fully developed?

Contraction of production, expansion of demand by effecting a fall of prices; if need be, even government assistance to the great financial institutions at short loans, the opening of opportunities for emergency employment by the state and the communities, legal suspension of the payment of debts, called moratoria, and suspension of the liability laws.

498. In what do crises of the 19th century differ from crises in previous ages?

In that the latter crises were mostly plainly reducible to one great tangible cause, such as wars, revolutions, crop failures, the shifting of trade routes by discoveries, over-production (the Tulip crisis in

1637 and the French crisis of John Law's Mississippi failure in 1720)—while the modern crises are more the result of flaws in the delicate mechanism of the organization of production and of distribution and exchange in our modern national economies.

499. **What is meant by the periodicity of modern crises?**

Their recurrence at almost regular periods of from 10 to 12 years.

500. **Mention the great periodic crises of the last hundred years, with their chief causes, and the country of their origin and prevalence.**

1815—English general crisis, result of Napoleonic wars with its concomitant financial exhaustion of the Continental market for English products.

1825—English general crisis, result of over-speculation, too rapid development of canals, tramways, gas works, over-speculation of English capital in South America, crisis is international.

1836-1839—United States-England, result of unsound credit expansion of English banks and of reckless bank note issues in America; distress following this crisis adds fuel to the Chartist movement, the first great modern revolutionary labor movement, from 1836-1848 in England.

1847—England, result of over-speculation and building of railways, failure of potato crop in Ireland and grain crop in United States, crisis being felt in many money centers of the continent.

1857—England, United States—the first real world crisis, following colossal railway expansion, gold discovery in California, Australia, New Zealand, unsound banknote policy in France, England, America, and speculation.

1864—France, 1866, England, local money crisis. Also 1869, "Black Friday," Sept. 23, 1869, in United States, arising out of paper money speculation by Jay Gould.

1873—Of Austrian origin develops into world crisis, lasting until 1880; causes really lay in unsound industrial expansion in Germany following war with France, over-speculation, too many undertakings,

crisis is accentuated by cotton and railway crisis in 1878.

1882—France, result of founding of Union Generale, purporting to be a means to break the financial dominance of the Rothschilds in Europe. This credit institution, upon absorbing millions of francs, collapsed.

1893—United States, brought on by experiments of Silver Party which undermined American credit in European money markets, 75 American railways bankrupt, from 400-500 business bankruptcies per week, march of "Coxey's Army" of 10,000 to Washington.

1907—United States, money crisis, brought on by inelasticity of bank reserves and of the currency in general, and about $500,000,000 of improvised currency—clearing house loan certificates in small denominations, cashier's checks, and other credit emergency money was put into circulation. This money crisis of 1907 matured the Aldrich-Vreeland Act of 1908, which provided for a National Monetary Commission for the general reform of the banking system and ultimately led up to the Federal Reserve Banks System, the act for the adoption of the system being passed in 1913. The Reserve Banks System was devised and adopted for the purpose of averting crises in the United States in the future, but the system has not yet met with a really severe test.

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